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REPORT

OF THE

JOINT LEGISLATIVE COMMITTEE

ON

ECONOMY AND TAXATION

OF THE

Eighty-Sixth General  
Assembly

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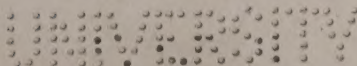
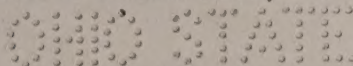
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MR. R. R. BEETHAM, Ohio Bankers' Association.

MR. WARREN F. PERRY, *Executive Secretary*, Mahoning Valley Industrial Council.

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\* Deceased.



## **A STATEMENT OF TRANSMITTAL**

Taxes, and other ways and means of raising revenue are among the most prominent and most serious subjects that come before any legislative body. The duty of making laws for the raising of revenues to carry on the various units of government is imposed upon the Federal Congress and the state and local legislative bodies by the constitutions prescribing the duties and functions of these various governments.

With legislative bodies it is often common practice in formulating legislation having to do with the raising of revenues to follow lines of least resistance and to continue practices once inaugurated until serious objection is met or the defects of such policies are apparent. It is only when opposition makes itself felt that legislative bodies are inclined to change their methods and then more often from considerations of expediency than from sound and scientific knowledge of the case.

Changing conditions throughout the country have from time to time made necessary changes in the revenue raising measures of our Federal government and of the various states. The great industrial and commercial developments of the past century are clearly reflected in the changes of the tax laws of most of the states of the Union.

In Ohio the constitution of 1851 vested the power of raising revenues and making laws pertaining to taxation in the General Assembly and further limited the method of taxing property by what is known as the "uniform rule". At that time Ohio was principally an agriculture community. With its subsequent development and growth have come increased demands for improvements and all the facilities of modern communities and increased demands for additional revenue. With the tremendous development in industrial and commercial activities has come also more than one attempt to correct constitutional limitations and permit new methods of taxation of new forms of wealth. Amendments calling for changes in the uniform rule have been submitted on more than one occasion in the last decade and rejected. Commissions have been appointed to study the situation but their recommendations and studies have not succeeded in altering Ohio's basic method of taxing property.

As might be expected in a growing community, Ohio's cost of government, both state and local, has increased year by year, and taxes have grown to such an extent that the rising trend is looked upon with much concern from many sources. The legislature, during the past decade, has made earnest efforts to correct this rapidly mounting cost of government and increase in taxes. But it has been constantly hampered in its efforts to deal with tax problems by the limitations of the uniform rule.

The General Assembly, in the session in the spring of 1925, passed a joint resolution submitting to the voters at the general election in November of that year another amendment to the constitution modifying the uniform rule. In view of the interest manifested in tax matters, in view of the serious financial situation facing many local taxing districts, and in view of the need for added revenue for both state and local purposes, and particularly because of the need of a carefully studied program for revenue raising in case the amendment to the constitution carried, the legislature, by joint resolution, appointed a committee to study the subject and report to it not later than March of the following year. The joint resolution read as follows:

(Amended Senate Joint Resolution No. 29)

#### JOINT RESOLUTION

Authorizing the appointment of a joint committee to investigate and study the laws of this state and other states, with a view of determining the best and most equitable methods of the taxation of property; and to recommend needed legislation to carry such methods into effect in this state.

*Be it resolved*, That a joint legislative committee is hereby constituted, consisting of four members of the Senate, to be appointed by the president of the Senate, and five members of the House, to be appointed by the speaker of the House, to investigate the revenues and expenditures of the state and its various local subdivisions and the laws of this state and other states relating to taxation and public expenditure, and to investigate generally in respect to systems and methods of taxation, to the end that economy may be secured in such expenditure, that the divisions of government may be operated within their income, and that taxation be assessed in the most equitable manner effectually reaching all property which should be subject to taxation and avoiding conflicts and duplication of taxation on the same property; and to recommend the legislation necessary to secure such economy and taxation, including, if necessary, such change in the form of local government in this state as may be required.



The committee is hereby authorized to sit at Columbus or elsewhere within the state, to choose a chairman from among its members, to employ a secretary and counsel and such other assistants as may be needed, to take testimony, subpoena witnesses and compel the production of books, documents and papers, and otherwise have all the powers of a legislative committee.

The committee shall report the results of its investigation to the legislature, together with such recommended legislative measures as it deems advisable to carry its recommendations into effect, not later than March thirty-first, nineteen hundred and twenty-six.

The expenses of the committee, not exceeding fifteen thousand dollars, shall be payable from the contingent fund of the legislature upon the certificate of the chairman of such committee.

CHARLES H. LEWIS,  
*President of the Senate.*

HARRY D. SILVER,  
*Speaker of the House of Representatives.*

Adopted March 27, 1925.

The duties imposed upon the committee and the results desired are apparent from the resolution, but as the work developed and the enormity of the task was recognized, it was soon felt that the legislature could best be served, by the committee working along certain basic lines, in the hopes that the results obtained would warrant the time and efforts given, and be conducive to a continuation or expansion of studies into fields which the committee has not been able to reach in the time allotted to it.

It was felt that the legislature was desirous of having recommendations pertaining to systems and methods of taxation which might be applicable in case of an amendment to the uniform rule; but it was also believed that the legislature was concerned with the question as to whether revenues were expended in a manner to the taxpayer's interest, in other words as economically as conditions would permit.

With these two points in mind, namely a desire to determine a just and equitable means of raising revenue from a study of existing conditions both in Ohio and elsewhere, and a study of the main functions of government with a view of determining whether economies in state and local government might be effected, the joint legislative committee proceeded.

At the outset it was recognized that, aside from the basic activities of government, either state or local, of health and the



protection of life and property, the large part of the cost of government in Ohio today is in highways, education, and welfare activities. The 86th General Assembly had created a commission to study the highway problem in Ohio, consequently the Joint Legislative Committee on Economy and Taxation felt that this part of governmental responsibility might well be left to the study of the Highway Committee. Similarly, a study of the penal institutions of the state had been assigned to another special committee of the General Assembly, and this Committee believed it need not duplicate the study of that body. It believes the reports of both committees referred to might well be studied in connection with the findings of this Committee, and that the work of all three committees is very much related. It feels the reports of these other committees will undoubtedly suggest or require revised or new methods of revenue for carrying on each activity, and it believes such requirements should be so considered in connection with the finding of this Committee to the end that a correlated, balanced program may be had.

The task of investigating revenues of the state and its various subdivisions, and the laws of this state and others relating to taxation presented one problem, while that of investigating expenditures of those subdivisions and laws relating to public expenditure was quite another. The former was carried on with a view to finding a system of laws whereby taxation might be assessed in an equitable manner provided constitutional limitations were removed, or what might be suggested for better results under our present system; the subject of investigating expenditures was undertaken with a view of ascertaining if economies in system or principle could be effected, but not as an audit to ascertain if expenditures were properly made. Such was not believed the function of the Committee, as indicated by terms of the resolution or by the appropriation contained therein.

Accordingly the Committee has conducted its study along the basic lines of (1) the cost of government, measured by taxes levied; and the public debt which largely affects the cost of government; (2) the state revenue system and the financial problem of the state; (3) a study of public education and school administration in Ohio, involving the school debt, the matter of state aid, the county school districting, of school housing and



finally the matter of higher education as carried on by the state and particularly as it relates to cost and enrollment; (4) a study of county and township government; (5) a study of the tax burden in Ohio on industry and agriculture; and (6) a study of the general property tax in Ohio and the tax limit laws. The time available to the committee made a complete analysis of all the phases involved impossible but it is believed substantial progress with the above mentioned subjects has been made and that the work done will serve as a basis for further studies which could well be projected.

The Joint Committee began its work in May 1925. Mr. Chester C. Bolton was elected chairman; Robert A. Taft was elected vice chairman and secretary. Sub-committees were appointed and a division of work made among them. These were Sub-Committee A., Messrs. Dempsey, Chairman; Bolton and Gardner on state revenues, inheritance tax, tax burden study, state universities and colleges. Sub-Committee B., Messrs. Farnsworth, Chairman; Evans and Silver on county and township government, public school administration and organization, municipal government. Sub-Committee C., Messrs. Taft, Chairman; Aigler and Dodd on the general property tax, the rate limitation system, budget systems for the state and local government, bond laws and public borrowing. Mr. Leyton E. Carter, director of the Municipal Research Bureau of Cleveland was chosen as executive secretary, to whose untiring and unsparing work a large part of the credit of their report is due. This arrangement was made possible by the action of Mr. D. S. Humphrey, president, and the board of directors of that organization.

The Committee has had the benefit of able and well trained staff assistance. The Committee would be ungracious indeed if it did not specifically voice appreciation of the very great amount of careful and constructive work done by Mr. R. E. Miles, director of the Ohio Institute, and Dr. R. C. Atkinson, staff member of that organization, in the fields of the state aid system and county and township government. All this work was done without expense to the Committee and was invaluable in character. Likewise equal appreciation is due to Dr. C. C. McCracken, professor of school administration at the Ohio State University, for the research work and development of a plan

for a unified county school district, to Dr. Ward G. Reeder, professor likewise in the same department for a study of the trend of school costs and school indebtedness, and to the Ohio State Teachers' Association for research data. The same appreciation is due Dr. J. Cayce Morrison of the Ohio State University for study of the state's interest in school housing. All of the work done by these members of the University faculty involved no expense to the Committee except incidental expenditures for stenographic and clerical services. Especial appreciation is due also to Mr. John O. Rees, staff member of the Municipal Research Bureau for work in the field of state finances, to Mr. C. S. Nicholson for much statistical and research work in many fields, to Mr. Lloyd D. Bower for a great deal of work of similar character and to the other employes of the Committee.

The Committee has had the benefit of thoughtful and disinterested counsel of an advisory committee on public school problems composed of John R. Williams, Chairman; R. E. Miles, L. B. Palmer, Walter F. Kirk, Dr. J. Cayce Morrison, Ray Fife, W. R. Hiestand, H. R. Dick and L. L. Rummel.

Also there was appointed a general advisory committee, the personnel of which has been given. This Committee has rendered invaluable service in the carrying on of an extensive study of the tax burden upon Ohio industry and business and in various other ways.

Especial mention should be made also of the helpfulness and cooperation of members of the tax commission, the state auditor's office, the state department of education, the legislative reference bureau, and many officials throughout other administrative departments of the state. The Committee further wishes to acknowledge the assistance it has received from the press of the state.

Attention should be called to the fact that during the past year and a half the Committee has issued twenty bulletins descriptive of Ohio's tax system and those of other states. The Committee has held many meetings at Columbus, various meetings of the sub-committees have been held in different localities of the state and individual members have devoted much time all in all to the task. A progress report was filed with the clerks of the



two branches of the 86th General Assembly on March 31, 1926, and the work continued until the close of the year.

The Committee feels as it views the enormity of the task set before it, the many phases and problems of governmental activities and administration and the need for continuous study of governmental problems that only a substantial beginning has been made. It believes that if legislative bodies are to meet their increasing responsibilities effectively, the service which interim committees, properly financed and staffed can render will be eminently helpful and worthwhile. The problems of legislation require careful, disinterested and constant study.

With these brief comments your Committee respectfully submits the following report. In addition to this report there is on file with the Committee a great amount of valuable data, statistics and information upon many governmental subjects. This material can be made available to the General Assembly or various committees thereof if such seems desirable.

Signed

CHESTER C. BOLTON, *Chairman*

ROBERT A. TAFT, *Secretary*

ALLAN G. AIGLER

JOHN B. DEMPSEY

MARTIN S. DODD

D. PRICE EVANS

W. W. FARNSWORTH

JOSEPH R. GARDNER

HARRY D. SILVER





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**REPORT**  
**of the**  
**JOINT LEGISLATIVE COMMITTEE**  
**on**  
**ECONOMY AND TAXATION**  
**to the**  
**EIGHTY-SIXTH GENERAL ASSEMBLY**

(19)





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## CHAPTER I

### The Present Tax System for State and Local Government

It is believed that the reader of this report can be served by a brief and simple description of the tax system under which the state and local governments operate. No attempt is made in this chapter to treat this subject exhaustively. Only the major features are discussed. The statement will afford a general picture and pave the way for a better understanding of the subject matter of the report.

**How Local Governments are Supported.**—The general property tax is by far the most important source of income of local governments. School districts have practically no other source of income in this state except those which receive grants in aid from the state treasury. This is true to much the same extent with township governments. County governments have certain other income such as fees of various sorts, a part of the gas tax receipts, fines and court costs. All of these together produce considerable revenue and they should not be disregarded when considering the county financial system.

In the case of cities a more complex condition is found. Cities have various sources of income. Most important of these, other than the general property tax, is the income from various municipally owned and operated public utility enterprises such as water, electric light and power, gas, heating and refrigerating services. In the aggregate this income is very substantial in amount. It is not available for general operating purposes of these governments, but is devoted to the operation, maintenance and the extension of the enterprises from which it is derived. Income from certain other sources does however contribute to the general operating revenues of cities. Prominent among these are fees of various sorts, cigarette, inheritance and occupation taxes, institutional earnings, rentals, sales and fines. The gasoline tax and auto license tax are substantial sources of income which are dedicated to a specific purpose i. e., the repair and maintenance

of streets. Despite the fact that cities have a considerable number of different sources of so-called "miscellaneous revenue" the proceeds of the general property tax probably amount to 75% of their total income.

Villages have a somewhat fewer number of sources of revenue. Public utility enterprises are not so extensively operated by them, nor are institutions such as hospitals, infirmaries, et cetera. Revenues from such sources are relatively not so important as with cities. There exist various fees and fines however similar to those of cities. The general property tax is the "back bone" of village revenue probably to a somewhat more pronounced extent than with cities. Without the revenue from the general property tax local governments would have to suspend operations until other sources were found, so vital is this income to them.

#### **General Property Tax Reserved for Local Governments.**

— It has been the policy of the legislature to reserve the general property tax for local governments as their chief source of revenue. This tax has not been used to any large extent by the state government. At the present time there is only one small state levy which is for the soldiers' adjusted compensation bonds. The state government is supported by so-called "indirect taxes." These are principally business taxes of various sorts.

Your Committee believes that reserving the general property tax for the use of local governments and supporting the state government by other taxes is sound policy. The income from certain taxes is divided between the state and local governments. The inheritance tax, the gasoline tax and auto tag license fees and cigarette tax are important examples. The constitution of the state directs that not less than 50% of inheritance taxes shall be returned to the subdivision where it originates. The constitution does not direct how the others mentioned are to be divided. This is a matter for the legislature to decide. Thus it is seen that the general property tax is now reserved for local governments except for a very minor use by the state, while the state shares certain other revenues with these governments. The revenues which are thus divided are by no means insignificant although relatively of greater importance to the state.

It is the strong conviction of your Committee that the state should not participate further in the use of the general property



tax as a source of state income. Whether there should be a complete separation of the sources of state and local income is another question and no attempt is here made to enter into any discussion of it. As the constitution now stands the general policy of supporting the state government by indirect taxes is endorsed.

**The Tax Limitation System.**—Ohio has a complicated set of tax limit laws. They are the product of compromise, patchwork and expediency. Running through them however is the idea of *tax rate* limitation rather than direct restrictions upon the amount of taxes that may be levied. The aggregate rate limit for local governmental purposes is 15 mills upon each dollar's worth of property as assessed for taxation. So far as this limitation is concerned it means that in any taxing district the total tax rate for all local governmental purposes is not to exceed 15 mills. Of this 15 mills, 10 mills may be levied by local taxing officials of the various local governments without any vote of the people being required. The additional 5 mills can be utilized upon favorable vote of the electorates of local governments. Under most circumstances the laws permit the levying of all, or at least practically all, of the 15 mills without a vote of the electorates concerned. Levies can be made for county, municipal and school purposes outside the 10 mills limitation but within the 15 mills limitation without popular vote which can accomplish this result. At one time the distinction between the so-called 10 mills limit and the 15 mills aggregate limit was of some importance but now the 10 mills limit has little significance. This is true because it can be exceeded for nearly every purpose without a vote of the people. The 15 mills limit is still of practical importance however because with certain exceptions it cannot be exceeded without consent of the electorates concerned. The notable exceptions are levies not to exceed 1.5 mills for school district public library purposes and 1 mill for county aid to state roads. These do not require the sanction of the voters but may be made by local taxing officials.

**Enforcement of the Tax Limitation System.**—For the purpose of enforcing the tax limitation system there is in each county a body called the County Budget Commission. It is made up of the County Auditor, County Treasurer and County Prosecutor.

Each county, municipality, school district, county and township constitutes a separate taxing district. Each has its own separate tax levy or levies for its own purposes. It is apparent however that a local government may be in several taxing districts. A city, for example, is usually in three taxing districts — that of the city, the city school district and the county. Therefore all property within the city is subject to the tax levies of these three districts, the total of these levies being the general tax rate within the city.

Each taxing district submits its budget annually to the County Budget Commission requesting revenues for the next fiscal year. The Commission must determine if the requested combined levies in each taxing district will be within tax limitations excepting levies which may legally be made outside the aggregate tax limit. In cases where the total of the requested levies exceeds the tax limits the Budget Commission must make such reductions in the requests for revenue from taxes as will bring the combined tax rate within the tax limitations except for such outside levies as may be legally made.

**Levies in Excess of the 15 Mills Limitation.** — It is a well known fact that the average total tax rate in the taxing districts of the state exceeds 15 mills. The average tax rate is nearer 20 mills than 15 mills. This is due to the fact that various laws have been passed from time to time permitting the making of levies for specific purposes in excess of the 15 mills limit upon favorable vote of the electorates concerned as well as provision for certain levies in excess of this limit without vote of the people. Since a great many taxing districts have availed themselves of these statutes the total tax rate in so many instances exceeds 15 mills. The 15 mills limitation has therefore not been an absolutely rigid limitation particularly since 1919.

The legislature at its last regular session passed a law of general application (the "Dodd Act") to all taxing districts providing that levies for any legal purpose could be levied outside the 15 mills limitation upon favorable vote of the electors concerned. Such levies can run for five years except those for interest on and retirement of indebtedness. This law makes the levying of taxes in addition to the 15 mills limitation a matter for the public officials and electorates of each taxing district to decide. In pro-



posing the law it was realized that under a rate limitation of 15 mills, local governments could not be conducted on a scale which now appears to be normal and usual throughout the country. But authority to exceed the 15 mills limit for general governmental purposes was not vested alone in local officials but in them and electorates combined. This most certainly provides for democratic control in determining local tax rates. It is assumed that through the referendum method local communities can decide in a large measure what is best for them in tax burdens, governmental activities and public improvements. It is important to bear in mind that the state is not now placing any iron clad restrictions upon citizens of local taxing districts in the levying of taxes. Their destiny in this field is principally in their own hands.

**The Assessment of Property for Taxation.** — The Ohio constitution provides that all property shall be assessed for taxation according to a uniform rule at its true value in money. This is known popularly as the "Uniform Rule". This principle is by no means unique to Ohio, but is in operation in various other states. Broadly speaking the principle has been losing in favor during at least the last twenty-five years. Several attempts have been made to abandon or alter the uniform rule in Ohio. They have all failed of fruition.

**Exempt Property.** — Ohio, as do all states, exempts certain property from taxation. Ohio does not however exempt many classes of property. The constitution says that "all bonds outstanding on the first day of January, 1913, of the state of Ohio or of any city, village, hamlet, county, or township in this state or, which have been issued in behalf of the public schools in Ohio and by the means of instruction in connection therewith, which bonds outstanding on the first day of January, 1913, shall be exempt from taxation but burying grounds, public school houses, houses used exclusively for public worship; institutions used exclusively for charitable purposes, public property used exclusively for any public purpose, and personal property, to an amount not exceeding in value five hundred dollars, for each individual, may, by general laws, be exempted from taxation". The legislature has provided for such exemptions by general law except that the personal property exemption is limited

to \$100 for each individual. A considerable number of states is much more liberal in the exemption of various classes of personal property.

**The Uniform Rule in Practice.**—Ohio has had the uniform rule for a great many years. Meanwhile the state has changed from a relatively undeveloped and almost frontier state of pre-civil war days to a highly developed, industrial and agricultural region and ranks fourth in wealth among the 48 commonwealths. During all this time and through all these changes the uniform rule has applied.

The uniform rule presents great difficulties in assessment of property for taxation. Property now is of a great many diverse kinds. These vary vastly in amount and importance as well as in the attributes which they possess. Some property is immovable and unalterable in amount such as land. Some is movable and variable in amount such as farm crops and manufactured goods. Some is intangible, easy to hide and often difficult to evaluate if found. Important examples of intangibles are stocks, bonds, bank deposits, credits, etc. Some property is consistently productive and some is not; some property while productive of earnings will not endure a substantial direct tax burden. All these factors contribute to making assessment under the uniform rule difficult.

**Un-uniform Results.**—While the constitution dictates uniformity of treatment for all property there is no uniformity in the various classes of property and like treatment in a legal sense produces most un-uniform results. And the more rigorously the uniform rule is enforced the more unjust and unsatisfactory the results. It is probably true that assessment practice in Ohio compares very favorably with that in other uniform rule states. The assessment of personal property, both tangibles and intangible is particularly notable. The percentage of the total tax base, popularly known as the "grand duplicate", which represents personal property of various kinds is unusually high. However, a great deal of personal property, particularly intangible does not find its way onto the tax duplicate because no system of assessment practice short of frankly inquisitorial methods will enable local governments to reach it for direct taxation at high rates. Moreover much personal property is comparatively of little value and common sense dictates that elaborate or "high powered" pro-

cedure for reaching it is rather questionable. The results are apt to be inconsequential at best. On the other hand, land and buildings have a great aggregate value and can scarcely escape the assessor's eye in any event.

If assessment practice is rigorous much property of inconsequential value will be listed and much intangible property with a fixed rate of income will be hidden or driven out of the state or be taxed at confiscatory rates. On the other hand if assessment practice is loose and weak, principally real estate and other inconcealable property will be listed and other forms will largely escape. Such an enforcement of the uniform rule would clearly be farcical and unjust. Modern conditions render the uniform rule increasingly more untenable whatever actual assessment practice may be.

**Assessment Officers.** — The county auditor is the chief assessing officer in each county. He has the direct legal responsibility of applying the uniform rule. He has power to employ deputies and other assistants to aid him in this work. Under present laws he is not required to make a revaluation of real property more often than every six years.

The state tax commission has supervisory power over local assessment officials. It also is an appeal board for contested valuations. It fixes valuations of public utility properties.

**How the State Government is Supported.** — The state government is supported chiefly by so-called "indirect taxes", i. e., taxes which are not direct levies against property as such. These taxes are also known as "business taxes" because they fall upon various classes of business, industry and commerce.

Important among these taxes are :

(a) The domestic and foreign corporation franchise tax. For domestic corporations (Ohio companies) this tax is upon the privilege of doing business under corporate form and for foreign corporations upon the privilege of doing business within the state.

(b) Excise tax upon public utility companies. This applies to steam railroads, electric railroads, sleeping car and freight equipment companies, pipe line companies, natural gas companies, telephone companies, electric light and power



companies and certain kinds of utility companies of less importance. Insurance companies also pay an excise tax. These are privilege taxes and are based upon the gross receipts or earnings arising from business done within the state. Interstate business cannot be taxed by a state.

(c) Inheritance tax. This is a tax upon the privilege of transferring property or interests in property by will, gift or by intestate law. The state receives 50% of the proceeds of this tax.

Other sources of revenue of considerable importance are fees for the privilege of forming new corporations, for selling cigarettes and for hunting and fishing. Also the federal government makes contributions of several millions annually for road building and for carrying on certain prescribed educational and health work.

A more complete description of the state's revenue and financial system is found in Chapter V of this report.

## CHAPTER II

### **The History of Recent Legislation Limiting the Taxes and Debts of Local Governments**

**The Smith One Per Cent Law.** — In the year 1910 the State of Ohio entered upon a policy of drastic limitation of tax rates by general legislation. A thoroughgoing reappraisal of property was undertaken in that year, including an attempt to place on the tax duplicate intangible property as well as real estate at its true value. It was believed that if this could be done the tax rate would be sufficiently low so that there would be no considerable inducement to conceal intangibles. The Reappraisal Act was therefore accompanied by the Smith One Per Cent Law which provided a combined maximum limitation on the taxes which could be levied by schools, counties, townships and municipalities of 1% or ten mills on each dollar's worth of property assessed for taxation. An additional five mills was permitted to be levied by vote of the people, or to pay the debt charges on bonds issued by vote of the people.

The passage of the Smith Law and the Reappraisal Act was looked upon generally as a tremendous achievement. It was believed by many people that an effective cure had been found for distressing taxation ills of long standing and that a better day had come for local governments, their citizens and taxpayers. As a matter of fact the reappraisal resulted in a tremendous increase in the grand duplicate of the state. But except to a very limited extent it wholly failed to put on the duplicate the intangible property owned in the state. The rate of taxation provided by the Smith Law was still confiscatory as applied to intangible property, and yet even as applied to the new grand duplicate was insufficient to meet the expenses of government. While a limitation was imposed upon taxes there was practically no limitation of expenditures, and the result was that the local communities ran rapidly into debt. Whenever possible, expenses were taken care of by the issue of bonds and a long series of special acts permitted the issue of bonds even for the most ordi-

nary current expenses. The increasing charges for the interest and sinking fund requirements on debt within the fifteen mills limitation resulted in a constant decrease in the levies which remained for current expenses, and growing deficits in the operating accounts of cities, schools and counties.

**The Smith One Per Cent Law Modified.** — Pressure was brought to bear upon the legislature to modify the strict provisions of the Smith Law. Early in 1915 an act was passed permitting numerous levies for highway purposes without vote of the people between the ten and fifteen mills limitation and permitting one mill to be levied without vote outside of the fifteen mills limitation. The demand for good roads exceeded the demand for lower taxes. The war rapidly increased the cost of government and made the limitations of the Smith Law still more inadequate, for the periodical Reappraisal Act had been repealed and the duplicate did not keep pace with the increasing cost of government.

The Smith Law provided the same limitations within and without the limits of municipalities, although within those limits the municipal levy had to be added to the county and school levies existing throughout the entire county. The strain, therefore, became particularly acute within municipalities and was there augmented by the loss of the liquor license fees.

After 1915 numerous other exceptions were made to the Smith Law but no substantial modification occurred until 1920. In that year two measures were passed which resulted in a rapid increase in the tax rate. The schools were granted a minimum of five mills within the ten mills limitation making the position of cities still more difficult. Schools were also permitted to levy one mill for current expenses without a vote between the ten and fifteen mills limitation, and to levy three mills outside of all limitations upon a favorable vote of the electors. At the same time the Gardner Act permitted cities, schools and counties to vote their sinking fund and interest levies outside of the fifteen mills limitation, which was done in most of the more populous communities.

**The Failure of the Smith One Per Cent Law.** — In 1921 this legislation was supplemented by an emergency act permitting municipalities for three years to levy taxes without vote between the ten and fifteen mills limitations.



The effect of these laws was in fact to increase the ten mills limitation to fifteen mills, and to permit the people to vote additional levies outside of the fifteen mills. The average rate in the state rapidly mounted to somewhat more than 2%. The Smith Law had failed in its principal purposes, and had produced certain additional problems of a serious nature. It failed to place intangible property on the tax duplicate. It failed to limit the expenses of local government or the incurring of debt, and in the end therefore it failed to hold down the taxes. It became necessary either to abandon completely the principle of a joint tax limitation or to approach the problem in a new manner and with a more carefully thought out plan. Since 1921 the legislature has been steadily working out this problem. There is little doubt that the people of Ohio are in favor of the principle of tax limitations and in the opinion of this Committee, that principle, if properly worked out, can hold down to some extent the expenses of government.

**The Griswold Act.**—The first constructive step taken by the legislature was the Griswold Act of 1921. The tax limitation of the Smith Law failed to work because the local officials found other sources from which money could be obtained. The chief of these was the issue of bonds and the total outstanding bonds of local districts increased from \$187,574,000.00 in 1910 to \$607,899,000.00 in 1921. Local officials also found that they could simply run in debt and use the one year's income to pay the debts of the preceding year. Ultimately the legislature had to permit them to issue bonds for their unfunded debt. The Griswold Act reinforced the old provisions of the Longworth Act limiting the total of outstanding bonds. It forbade the issue of bonds for current expenses. It limited the term of bonds to the probable life of the improvements. It required the issue of serial bonds so that there could be no further abuse of sinking funds, which had developed in many communities. The act also provided maximum maturities for bonds issued for different classes of improvements very much shorter than the previous practice.

The purpose of the Griswold Act was to confine the issue of bonds strictly to permanent improvements having a life of five years or more and compel the people to pay their debts promptly and not pass on the entire burden to future generations.

**The Taft Act.** — In 1923 the legislature passed the Taft Act which attempted a complete revision and simplification of the tax limitation system including a new plan of budget procedure to hold the expenses of local governments within their income. The act was defeated at a referendum because it attempted to increase the fifteen mills limitation to seventeen mills within municipalities and to place the sinking fund and interest on future bonds outside of the fifteen mills limitation. The failure of this act and the expiration of the Emergency Act of 1921 placed cities in 1924 and 1925 in an even more serious position than had previously existed.

**The Situation in 1925.** — In 1925, therefore, the legislature had to meet numerous problems. Many counties had not reappraised since 1910 and the tax system being a rate limitation provided much greater restriction in under-appraised communities than in those which had kept up with property values. The cities particularly were squeezed out of revenue by the school minimum levies and the growing county levies sustained by the County Budget Commission. The Griswold Act, while limiting the issue of bonds did not prevent the incurring of debt by spending more money than the taxes provided and thus creating deficits at the end of each fiscal year. The tax limitation laws were in a complete state of arbitrary confusion.

**The McDonald Reappraisal Act.** — The legislature dealt with these problems separately. The McDonald Reappraisal Act provided for a sexennial reappraisal throughout the state, beginning in 1925. Without a uniform base a rate limitation is meaningless and produces proportionately more revenue in a county which appraises properly than in one which does not reappraise at all or reappraises at too low a valuation.

**The Tallentire Act.** — The Tallentire Act provided the first real home rule for municipalities by providing that if any municipality fixes a rate limitation in its charter, the limits of the Smith Law shall not apply. Through this law cities were enabled to adopt a definite financial policy instead of being dependent upon the voting of extra levies which is always uncertain and is more affected by political considerations than by the actual needs of the community. At the recent November election the City of Cin-

cincinnati availed itself of this Act by fixing a six mills limitation on the current expenses of the city by charter amendment.

**The Dodd Law.** — The Dodd Law authorized the voting of extra levies by any subdivision outside of the fifteen mills limitation, thus providing a species of home rule for county, schools, cities and townships alike. It also restored the provision of the Emergency Act of 1921 authorizing cities to levy without vote between the ten and fifteen mills limitation, thus placing them on an equal basis with schools and counties. The Act while preserving the basic idea of the Smith Law provides much greater flexibility in the tax limitation system and permits the arbitrary rates laid down at Columbus to be modified by vote of the people to meet the special conditions of each locality. The Dodd Law also provides for the making of levies within tax limitations for specific public improvements, tending to encourage the adoption of pay-as-you-go policies for capital improvements. The Law also provides a minimum irreducible levy for the operating expenses of municipalities of four mills exclusive of the University levy, but this provision has not worked satisfactorily and it will probably have to be modified.

**The Krueger Act.** — The Krueger Act strengthens the provisions of the Griswold Act and attacks one of the basic faults in the Smith Law, namely the inclusion within the same tax limitation of current expense levies and levies for debt charges. As has already been pointed out, under the provisions of the Smith Law as amended, the increase in debt charges resulted in a decreased levy for operating expenses, although in most cases the construction of capital improvements tends rather to increase the current expenses than to reduce them. Under certain conditions the issue of bonds by a school district would even cut down the operating expenses of a municipality, or vice versa, without the slightest justification in reason. The Krueger Act provides that no bonds can be submitted to vote of the people unless there is submitted at the same time the question of an extra levy outside of tax limitations to take care of the debt charges on the bonds. In other words, the people are unable to vote improvements unless they are willing to vote the taxes to pay for them. This extends the principle given limited application in the Gardner Act. It does not apply, however, to bonds issued without



vote of the people, the charges on which still remain within tax limitations. But in order that these charges shall not be of sufficient size to interfere seriously with operating levies, the Act reduces the amount of bonds which can be issued without vote of the people. Thus in municipal corporations the maximum indebtedness for bonds issued without a vote of the electors is reduced from  $2\frac{1}{2}\%$  to  $1\%$ . School districts are already practically unable to issue bonds without a vote and it is probable that the power of counties to issue bonds without vote will be curtailed at the next session of the legislature. The net effect of the Krueger Act, therefore, is to restrict further the issue of bonds and to separate the debt charges from the current expense levies. The Act also standardizes the method of issuing bonds by vote of the people and requires a vote of  $55\%$  of those voting on the question to carry any bond issue for cities, schools, counties or townships.

**The Vorys' Budget Law.**—The Vorys' Budget Law was aimed to fill the last hole in the tax limitation system by preventing the expenditure of money by any district in excess of that available from reasonably anticipated revenues. Bonds could no longer be issued for operating expense but all over the state bills were incurred in excess of available revenues to such an extent that in some districts it took the entire revenues of the succeeding year to pay the debts of the previous year. Local districts indulged in the practice of appropriating more money than was in sight, and of expending money in excess of their appropriations. The Vorys' Act establishes the calendar year as a uniform fiscal year. It requires the County Budget Commission to certify to each district the amount of its reasonably anticipated revenues. It forbids the appropriation of money in excess of such certificate and it penalizes the expenditure of money and voids the making of contracts in excess of the appropriations. The purpose of the act is to require each district to hold its expenditures within its revenues and to put an end to unsound financial practices for which, in view of the greater elasticity of the tax limits, justification no longer exists.

**The Results of Recent Legislation.**—The legislation adopted in 1925 has resulted in a much smoother operation of the taxing machinery than existed heretofore. It, however, made immediately apparent a condition which no one realized to be so

serious for it appeared that nearly half of the counties of the state had a large current indebtedness which they were unable to pay, although the counties were supposed to be the districts in the best condition. It became necessary therefore to adopt a law permitting the counties to start the year 1926 by funding the accumulated current indebtedness so that they could operate thereafter within the budget requirements. This was done in the Baxter Act passed at a special session in 1926. That act also met a condition which developed in Allen County because of the excessive accumulation of debt charges within the limitations, and permitting the excluding of a certain amount of these debt charges from the limitations by petition of the electors.

A perusal of these financial laws affecting local governments must attest to the fact that in recent years substantial progress has been made in remedying the taxation ills and financial practices which threatened the continued operation of a great many of our local governments. Deficiency borrowing, it may be hoped, is at an end. The use of public credit is upon a sounder basis. The inflexibility of the rate limitation system has been relaxed with substantial safeguards retained. The development of sound budgetary practice has been fostered. The chief criticism of the legislation is that it is piecemeal and leaves still in force a jumbled confusion of tax and bond limitations and exceptions. It is desirable therefore that both the tax laws and bond laws be recodified in such a manner that they will present a simple system based on understandable principles. It will also be necessary to make adjustments in the Budget Law to meet difficulties which have developed in this most difficult and most important field of government finance.

Ohio is committed to a tax limitation system. Such a system cannot possibly succeed unless it is supplemented by a direct control on the issue of bonds and on the expenditure of money by local subdivisions.

## **CHAPTER III**

### **The General Property Tax Burden and the Cost of Local Government**

During recent years the cost of government has been a subject of widespread comment and interest. The prime cause of this comment and discussion has been the rapid rise (in terms of dollars) in cost of carrying on almost all of our units of government. It is this increase, which often has seemed spectacular and astonishing, that has brought forth the great streams of comment and discussion. All this, of course, has not been of one flavor. Its purpose has been largely either to condemn or to condone and less frequently to explain. Many have looked upon this rising trend of costs with varying degrees of misgiving. Of these some see in these mounting costs a menace which, if unchecked, will stifle all productive enterprise and crush the energy of an erstwhile free people. On the other hand there are many who see in these rising costs a not excessive price for governmental services and activities which will take us far along the road to a utopian society. Or again, others see in these services and activities with their attendant costs but the natural adjuncts of a complex and dynamic age.

Obviously there is nothing in common between such divergent viewpoints. To the disinterested observer or to the citizen who is earnestly seeking some trustworthy clues as to the meaning of this particular trend of the times little help can be gained from such a welter of conflicting views if not to say indiscriminating opinions. He finds, except in rare instances, too little weight given to certain basic considerations. What are the real effects of governmental expenditures for specific purposes upon the production and protection of our economic wealth? Likewise, upon the actual improvement of living conditions and the standard of living enjoyed by our citizens? What is the relation of governmental costs from year to year to the growth of wealth and to income? Is government in fact taking an increasing portion of the social income and dipping deeper and deeper into the stream



of production? Is the individual producer actually working a larger number of days each year 'for the government'? What is the real trend in governmental costs when measured not in dollars but by some more accurate index? These are some of the questions which the thoughtful citizen and disinterested observer will ask. And he will realize that without some attempt to answer such questions he will not be able to form judgments which will be altogether satisfying.

Your Committee hastens to say that with the time and means allotted to it satisfactory answers to all these questions of basic importance have not been formulated. However, the Committee has devoted considerable study to the increase in the cost of government, and the collecting and assembling of information and data upon the subject. It has believed that before judgments are formed the pertinent facts, or such portion of them as are reasonably available, should be in hand. Effort is made in the following pages to summarize this material and to present it in clear and understandable fashion.

### **The General Property Tax and the Cost of Government.**

In this chapter data are presented upon the general property tax as it relates to the cost of local government reserving for a later chapter the discussion of the cost of the state government. Local governments in Ohio comprise principally counties, cities, villages, school districts and townships.

It was found that accurate information upon actual expenditures for all of these thousands of local governments could not be compiled without a prodigious amount of effort. The general property tax is the principal source of revenue by which all of these units are supported. Hence the taxes levied for this purpose over a period of years are a very fair measure of the trend of money costs.

The following table gives the total amount of general property taxes levied for the period 1910-1925 for state, county, township, school, city and village purposes together with the percentage of increase or decrease over the base year, 1910.

TABLE NO. I.  
GENERAL PROPERTY TAXES LEVIED 1910-1925 FOR STATE AND LOCAL GOVERNMENTS.

	State		County		Township		School		City and Village		Total (Exc. Sp. Assess- ments)	
	Amount	Pct. Inc.	Amount	Pct. Inc.	Amount	Pct. Inc.	Amount	Pct. Inc.	Amount	Pct. Inc.	Amount	Pct. Inc.
1910	\$3,340,945 25	.....	\$16,259,322 82	.....	\$5,217,190 99	.....	\$23,765,876 16	.....	\$21,096,167 62	.....	\$69,879,502 84	.....
1911	2,796,408 94	D 16.39	15,414,204 20	D 5.19	4,254,772 80	D 18.44	22,517,976 47	D 5.25	21,655,787 72	D .19	66,039,150 13	D 5.22
1912	2,922,577 17	D 12.52	16,393,574 32	.82	4,578,752 85	D 12.23	23,832,407 82	.27	22,084,979 64	4.68	69,812,281 80	.19
1913	6,457,025 20	93.26	18,525,943 11	13.94	4,963,080 90	D 4.87	25,930,162.58	9.31	23,904,135.95	13.31	79,530,347 74	14.56
1914	3,391,552 47	1.51	19,791,815 81	21.72	6,309,433 40	20.93	29,132,170 76	22.57	26,884,448 02	27.43	85,509,420 46	22.71
1915	3,313,369 31	D .82	22,398,414 36	37.75	7,045,261 58	35.03	31,826,771 23	33.91	27,075,892 23	28.34	91,659,708 71	31.54
1916	3,462,320 87	3.63	24,885,015 69	53.05	8,754,337 44	68.37	35,190,177 77	48.07	29,983,467 60	42.12	102,305,319 37	46.82
1917	3,842,625 05	15.01	27,170,654 04	67.10	9,156,225 37	75.50	40,541,706 29	79.58	33,247,010 34	57.39	113,958,221 09	68.54
1918	4,079,023 05	22.09	28,950,245 38	73.05	10,023,932 49	92.13	44,668,635 99	87.35	36,365,267 24	72.37	124,087,104 15	78.08
1919	6,238,640 67	86.73	33,845,528 82	108.16	11,500,152 71	120.42	56,877,985 78	139.32	38,912,652 21	84.46	147,874,910 19	111.50
1920	24,537,468 35	634.44	43,410,808 77	166.99	12,708,894 02	143.59	72,155,648 33	203.73	52,543,683 90	149.06	205,936,503 37	194.75
1921	11,069,388 92	229.32	43,684,092 75	168.67	13,114,301 90	151.36	92,902,973 19	290.90	59,302,475 01	181.10	220,012,521 77	215.74
1922	15,864,399 35	374.84	41,958,786 85	158.05	13,239,377 95	154.72	94,522,754 66	297.72	58,495,439 05	177.27	224,130,757 66	231.65
1923	3,274,487 10	D 1.99	46,907,713 14	188.49	13,764,629 02	163.83	106,732,665 29	344.97	63,116,860 84	199.18	232,816,355 39	234.12
1924	3,154,065 39	D 4.69	48,564,714 56	198.68	14,415,176 02	176.30	112,235,107 90	372.25	66,659,471 65	215.97	245,058,585 82	251.69
1925	3,169,275 84	D 5.13	53,019,245 24	226.08	13,992,607 30	166.47	117,375,393 06	393.54	73,978,354 67	250.67	261,444,876 11	275.21

NOTE: "D" indicates decreases.  
Reference: Annual reports of the Tax Commission of Ohio.

The general property tax has not been a very important source of state revenue during this period and it should be borne clearly in mind that the above figures of these taxes accruing to the state by no means represent its total revenues. These state levies so-called have been used in large part to help finance local governmental functions. It therefore seemed wise to include the state levy figures to make the picture of the general property tax more complete.

Examination of the figures, particularly the percentages of increase, shows a steady upward trend. The total levied for 1910 was \$69,679,502.84 and for 1925 \$261,444,876.11, an increase of 275.21 per cent over the base year 1910. Percentages of increase for the period vary considerably for the several classes of governmental units being greatest for school districts, i. e., 393.88 per cent over 1910, and with the exception of the state levy lowest for townships, or 166.47 per cent increase. It is to be noted that the rate of increase for total taxes levied accelerated somewhat after 1918 and that a marked increase took place in 1920 from which there has been no recession. This table is useful only to show the increase in terms of dollars for the period and does not throw accurate light upon the real increase or decrease of costs.

**Dollars not an Accurate Index of Costs.**—Dollars, though the standard monetary unit and representative of a currency system that has steadily conformed to a gold standard, are not an altogether good measure of real costs. It is a matter of common knowledge that the purchasing power of the dollar measured in terms of commodities and services it will command in exchange has fluctuated greatly since 1910. These changes have been spectacular and of unusual severity and were important among many far-reaching economic disturbances of the war and post-war period.

All this makes necessary some adjustment of money costs if the trend of real costs is desired. In arriving at trends of real cost the trend of fluctuation in the purchasing power of the dollar must be taken into account. To do this a base must first be selected to which comparisons are to be made. Accordingly the purchasing power of the dollar as it was in 1913 was selected as an appropriate base, this being prior to the beginning of the



marked fluctuations of the world war period. Unfortunately, there exists no definite and adequate index of the changing cost of local government in Ohio. We can only resort to such indices as are available to translate the tax levies of various years into comparable purchasing power. For this purpose two indices have been used; one, the wholesale price index, and the other, the cost of living index, both as calculated by the U. S. Bureau of Labor Statistics. The year 1913 being used as the base is considered as 100; all other years for the purpose of comparison being percentages of increase or decrease based on 1913.

From these index numbers fluctuations in the purchasing power of the dollar are easily computed. The following table shows the purchasing power of the dollar on both the wholesale commodity price basis and the cost of living base for the period 1910-1925 in terms of the 1913 dollar.

TABLE II.  
INDEX NUMBERS  
PURCHASING POWER OF DOLLAR  
(Based on Index Numbers of Wholesale Commodity Prices and  
Cost of Living)

<i>Year</i>	<i>Wholesale Commodity Index</i>	<i>Cost of Living Index</i>
1910 .....	.991	1.075
1911 .....	1.075	1.087
1912 .....	1.009	1.025
1913 .....	1.00	1.00
1914 .....	1.019	.971
1915 .....	.992	.951
1916 .....	.789	.845
1917 .....	.564	.702
1918 .....	.514	.573
1919 .....	.484	.531
1920 .....	.442	.480
1921 .....	.681	.564
1922 .....	.672	.595
1923 .....	.651	.583
1924 .....	.668	.585
1925 .....	.630	.569

These fluctuations have been very marked, the purchasing power of the 1920 dollar marking the low point in both instances, as compared with the 1913 dollar. Since 1920 there has been some increase.

**Direct Taxes Levied Adjusted to Purchasing Power of the Dollar.** — By applying the index numbers of the purchasing power of the dollar shown in Table II the following tabulation results:

TABLE III.

DIRECT TAXES LEVIED IN THE STATE OF OHIO — YEARS 1910-1925, ADJUSTED TO PURCHASING POWER OF THE DOLLAR USING 1913 AS A BASE

Year	Direct Taxes Levied — Money.	Purchasing Power of the Dollar — Commodity Price Index.	Direct Taxes Levied — Adjusted to Purchasing Power of Dollar — Commodity Price Index.	Purchasing Power of Dollar — Cost of Living Index.	Direct Taxes Levied — Adjusted to Purchasing Power of Dollar — Cost of Living Index.
1910 .....	\$69,679,503	.991	\$69,052,387	1.075	\$74,905,466
1911 .....	66,039,150	1.075	70,992,086	1.087	71,784,556
1912 .....	69,812,292	1.009	70,440,603	1.025	71,557,599
1913 .....	79,830,347	1.000	79,830,347	1.000	79,830,347
1914 .....	85,509,420	1.019	87,134,099	.971	83,029,647
1915 .....	91,659,708	.992	90,926,430	.951	87,168,382
1916 .....	102,305,319	.789	80,718,897	.845	86,447,995
1917 .....	113,958,221	.564	64,272,437	.702	79,998,671
1918 .....	124,087,104	.514	63,780,771	.573	71,101,911
1919 .....	147,374,910	.484	71,329,456	.531	78,256,077
1920 .....	205,386,503	.442	90,780,834	.480	98,585,521
1921 .....	220,012,522	.681	149,828,527	.564	124,087,062
1922 .....	224,130,758	.672	150,615,869	.595	133,357,801
1923 .....	232,816,355	.651	151,563,447	.583	135,731,935
1924 .....	245,058,536	.668	163,699,102	.585	143,359,244
1925 .....	261,444,876	.630	164,710,271	.569	148,762,134

This table reveals certain very interesting things. Whereas the direct money cost of government has been rising throughout the period this presumably has not been the case with real costs. When allowance has been made for fluctuations in the purchasing power of the dollar the picture is changed considerably. The adjusted figures indicate an actual decrease in real costs for the year 1917 on the basis of commodity prices, and for the years 1918 and 1919 a decrease on both bases as compared with the

base year 1913. These were the war years during which concerted effort was made to bring the war to a successful conclusion. Generally speaking there was little or no expansion in the activities and undertakings of our local governments. All emphasis was placed upon the tremendous task facing the national government. Expenditures for public works by local governments were in many cases drastically curtailed. Important was the fact that wage and salary rates of employes of our local governments were not as a rule advanced during these years to keep pace with rising prices. A third cause for this decline in the real tax burden was the fact that the operation of Ohio's tax limit laws caused the incurring of huge deficits by many of our local governments during these years. Many units caught between rising prices and inflexible tax limits were spending beyond their income. Thus it was that for a period, despite an increase in the number of dollars of taxes levied, the real burden of taxation for local governments declined. In other words the increase in taxes levied for these years was more than offset by the declining purchasing power of the dollar.

The adjusted figures show, however, that the situation was sharply reversed by 1921. At this time the reflex of the causes which had produced declining costs from 1917 through 1919 had taken place. In 1921 the taxpayer felt a decided impact of rising governmental costs. While the increase in taxes levied was about \$15,000,000 in 1921 over 1920, the adjusted figures show a jump in real costs of about \$59,000,000 on basis of commodity prices and \$26,000,000 on cost of living basis. True it was that total taxes levied jumped about \$58,000,000 in 1920 over 1919 but the effect of this was presumably in large part offset by the fact that the dollar was still declining in purchasing power. But by 1921 prices were falling and the purchasing power of the dollar was increasing due to sharp readjustments in business conditions occurring at that time. Despite these conditions the total taxes levied continued to rise at the same time that the purchasing power of the dollar increased which meant a decided increase in real costs. The further fact that this increase coincided with a period of business and agricultural depression and deflation made the impact of the increase the more pronounced. Since 1921 there have been no such important changes in taxes levied or in real costs although the trend of both has been upward. It may be said



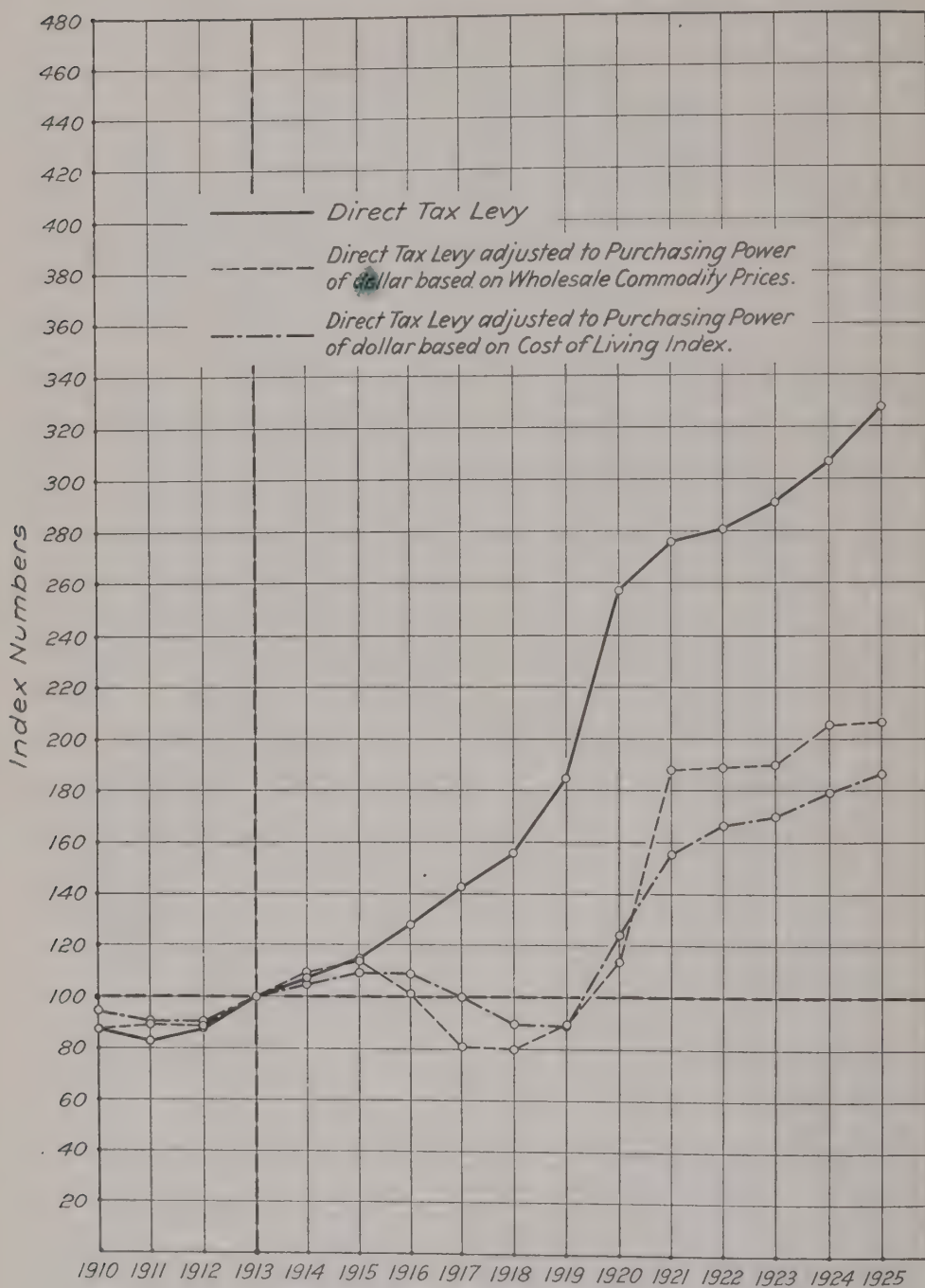
that since 1920 the total amount of taxes levied is on a new level. It would appear that with the beginning of this decade, governmental costs have definitely shifted to a higher plane.

The increase in costs following 1919 was in very large measure made possible by the removal of certain restrictive conditions applying to our local governments during the war period. But of still more importance were changes made in the tax limitation laws permitting the levying of additional taxes upon the consent of local electorates.

During the war period and after the demand for increased governmental expenditures was steadily growing. Governmental employes caught by soaring living costs were greatly in need, generally speaking, of increased compensation. There was a growing demand for more and better school buildings and for more improved highways as well as for various other public improvements. The compulsory school age was raised entailing increased costs and there was a general quickening of the desire for wider educational opportunities. Public health activities and sanitary improvements were being more strongly urged. Higher price levels generally constituted a very strong argument for increased expenditures. All these factors united to present an almost irresistible demand for the more liberal financing of governmental activities. This demand led to substantial relaxation of the tax limit laws through the passage of a series of acts beginning in 1919. While the passage of these acts which modified the Smith One Per Cent Law permitted the levying of additional taxes the causes for the increased expenditures resulting are to be found in the factors which were at work during the years immediately preceding these legislative changes. The combined effect of these factors served to put our local governments on a new scale of costs both in terms of dollars and adjusted dollars or real costs.

The following diagram depicts the relation between direct taxes levied and these costs adjusted to changes in the purchasing power of the dollar for the period 1910-1925 with 1913 as a base.

This graph shows nicely the comparative trends involved. The period of decline in real costs, the rapid increase in real costs from 1919 to 1921 to a new level which has shown only a slight upward movement since that time are all made apparent.



GRAPH NO. 1

INDEX OF DIRECT TAX LEVY ADJUSTED TO CHANGES IN PURCHASING POWER OF THE DOLLAR WITH ITS VALUE IN 1913 AS A BASE (PURCHASING POWER OF DOLLAR BASED ON WHOLESALE COMMODITY PRICES AND COST OF LIVING INDICES.)

1913 = 100.

**Comparison of Direct Tax Levy with Wage Rates, Commodity Prices, and Cost of Living Indices.** — Other useful comparisons can be made. The following graph compares the trend of the direct tax levy with those of wholesale commodity prices, wage rates and cost of living index for the period 1910 to 1925. (Graph II.)

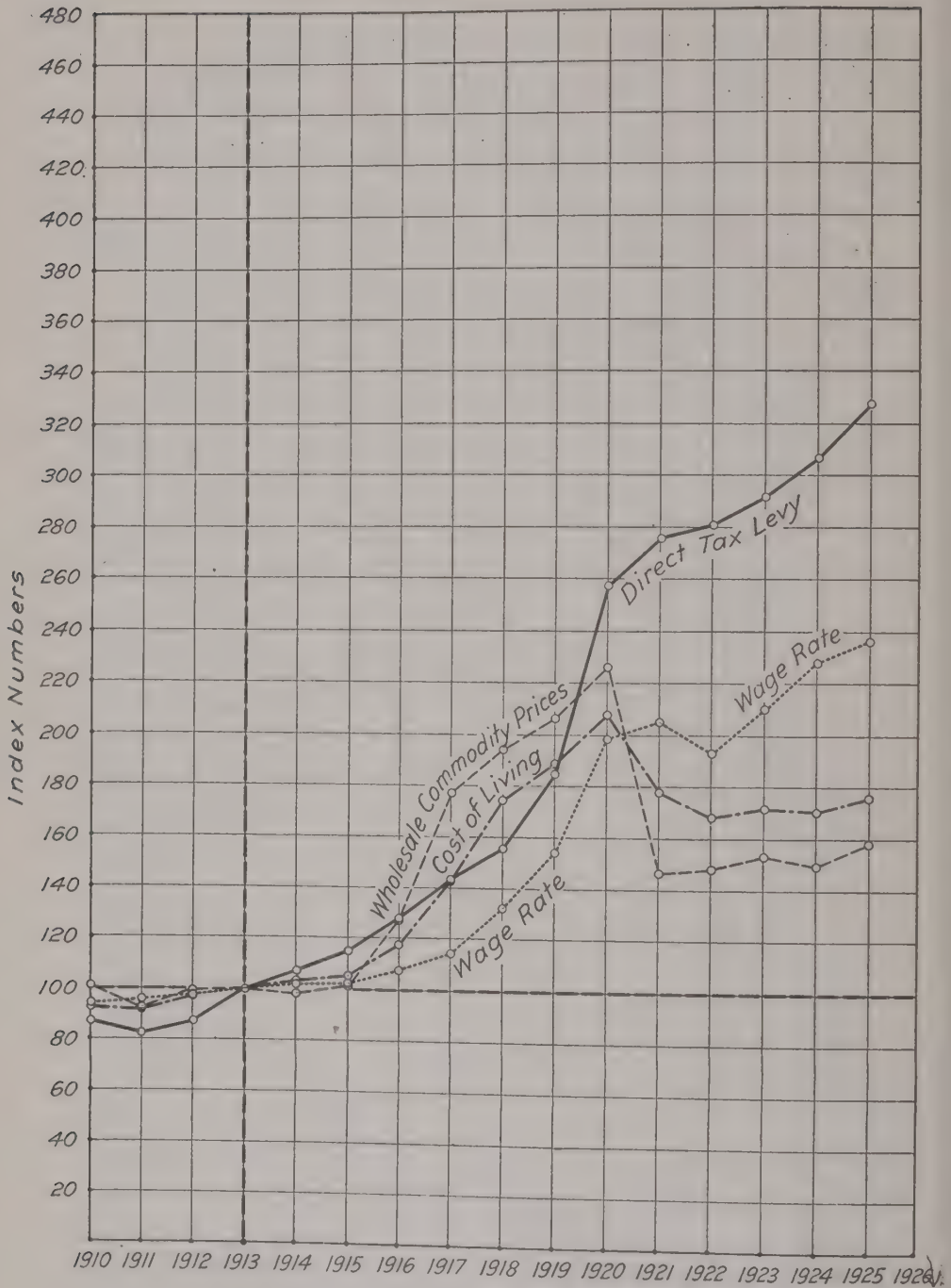
It is to be borne in mind that the graph depicts *percentages of increase or decrease* for the things compared over a base year (1913) which represents 100. The graph shows: (1) that the percentage of increase in the direct tax levy has exceeded the percentage of increase in union wage rates consistently since 1913; (2) that the percentage of increase in wholesale commodity prices exceeded the rate of increase of the direct tax levy from 1916 to 1919 roughly and then dropped sharply in 1920 below the tax levy curve since which time the trend of these prices has shown no such abrupt changes. These trends would indicate that wage earners have experienced some advantage in additional buying power since 1920, but have lost some advantage in ability to pay taxes whether these are borne directly or indirectly. Or to state it another way, the trends would indicate that this increased buying power has been offset to some degree by an accelerated rate of increase in taxes levied.

**Comparison of Taxes Levied with Assessed Valuation and Population.** — A further interesting comparison can be made of the increase in the direct tax levy with that of value of property assessed for taxation and population growth. The following graph shows such a comparison. (Graph III.)

This graph shows the trend of increase or decrease for the three factors being compared in relation to the base year 1913. The index for population growth (estimated) for the period 1913-1925 is 123.5; the index for assessed valuation for the same period is 188.7 and the index for total direct taxes levied is 327.5.

In preparing this graph no adjustments have been made for fluctuations in the purchasing power of the dollar. The idea involved is to compare the trends during the period of taxes levied, the tax base (i. e., assessed valuation) and population. These comparisons are rather startling. Population increase, while of necessity estimated for the most part, has not been phenomenal. On the other hand the trend of increase for direct taxes levied shows

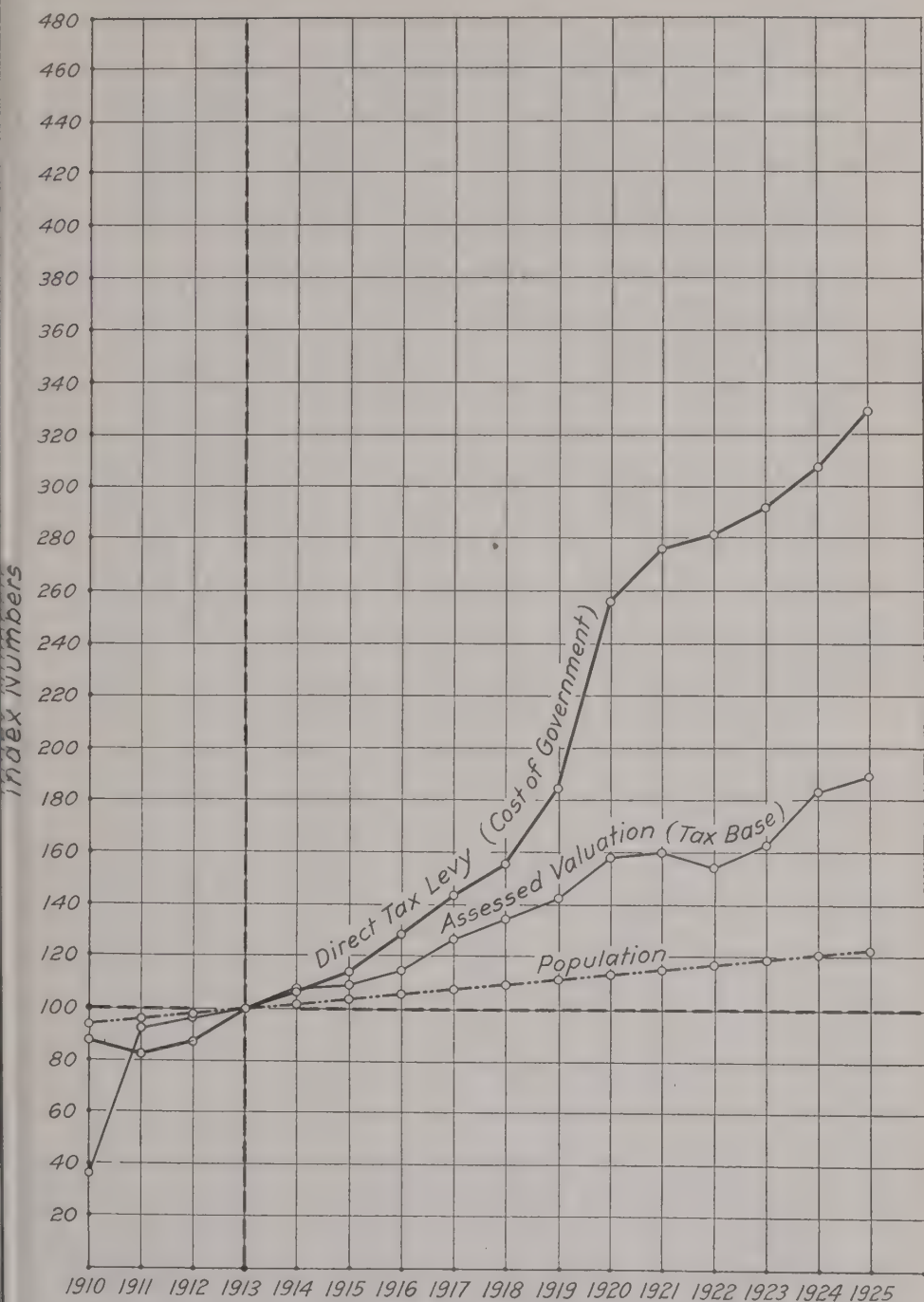




GRAPH NO. II

INDEX OF INCREASE IN COST OF GOVERNMENT (BASED ON DIRECT TAX LEVIES) COMPARED WITH WHOLESALE COMMODITY PRICES, WAGES AND COST OF LIVING INDICES.

1913 = 100.



GRAPH NO. III

INDEX OF COST OF GOVERNMENT (DIRECT TAX LEVY) COMPARED WITH  
THAT OF THE TAX BASE (ASSESSED VALUATION OF PROPERTY) AND  
POPULATION.

1913 = 100.

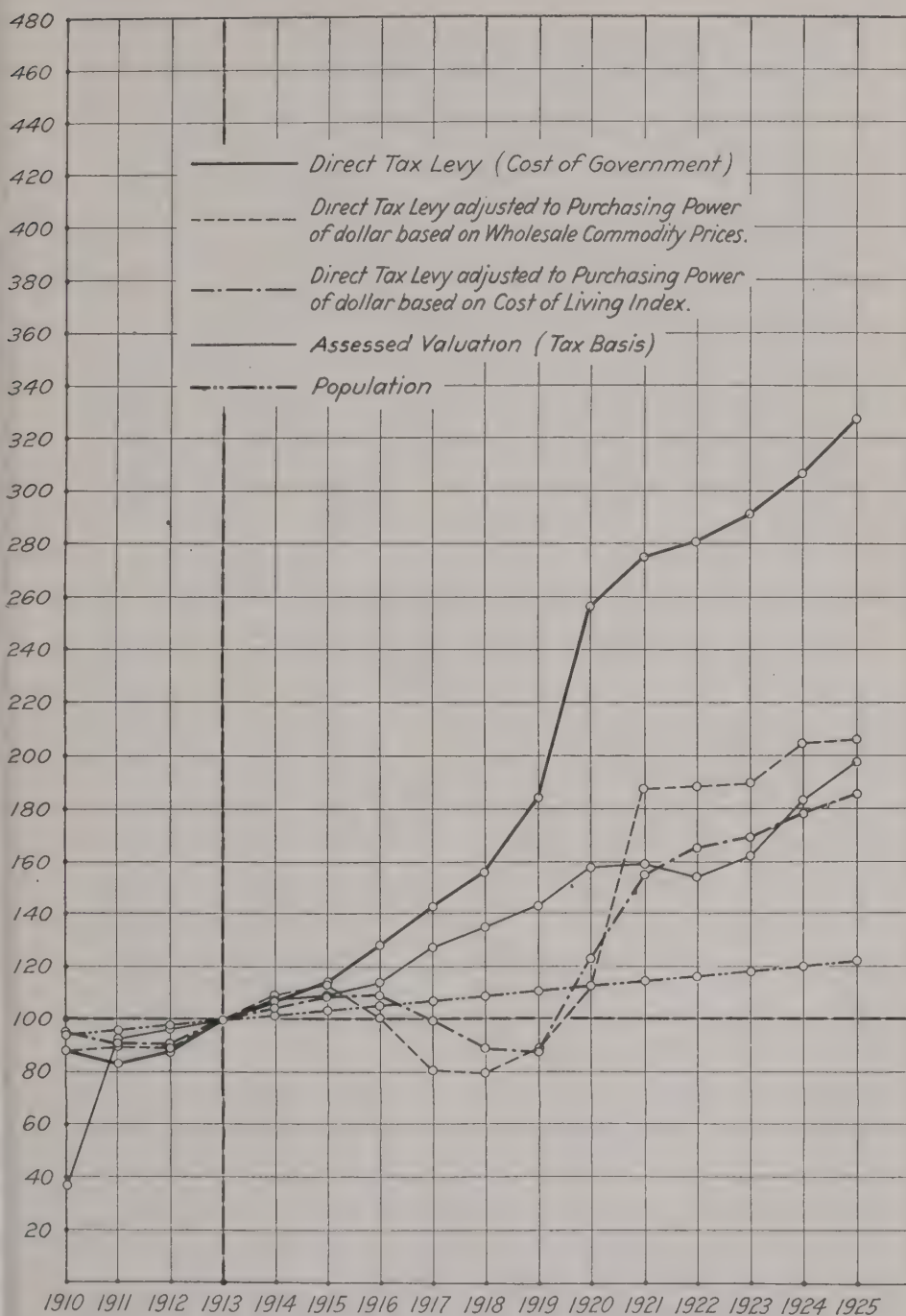
a sharp curve which is distinctly more abrupt than the increase for assessed valuation. The graph would seem to indicate that the rate of increase for taxes levied is roughly twice that of the tax base. These trends taken at their face value might well cause grave concern. If the tax burden is increasing substantially faster than taxable property an extremely unsound situation exists.

Some qualifications must be made, however, to the actual figures for the assessed valuation of property or tax base. During the period 1910-1925 no general reappraisals of property were made in about two-thirds of the counties of the state. Thus, no thoroughgoing attempt was made in these counties to reflect upon the tax duplicate, real increases of value or fluctuations due to rising price levels brought about largely by the shifting purchasing power of money. What the exact effect of failure to re-appraise has been, it is impossible to say. During the past year appraisals have been going forward in these counties following a mandatory appraisal act passed at the last regular legislative session. The results of these revaluations should be very interesting. In addition to the probable undervaluation of much of the property on the tax duplicate much intangible property such as money and credits has no doubt escaped altogether. In fact the whole situation may be but additional evidence demonstrating that the general property tax fails adequately to reach the tax-paying ability of the public.

Assuming that little attempt was made from 1910-1925 in most of the counties to adjust money values of property to general shifts in price levels the following graph is presented. (Graph IV.)

Upon the hypothesis that the assessed value of property did not in most instances follow the general rise in price levels this graph represents an attempt to arrive at true trends by showing the tax levy adjusted to the purchasing power of the 1913 dollar. This would indicate that since 1921 the rate of increase in the real cost of government has exceeded the rate of increase in the tax base considerably. This would seem to present the matter conservatively because in certain counties distinct effort has been made to keep property valued for tax purposes in closer conformity with shifts in price levels and no allowance has been made in this graph for that fact. Poor as it may be as a standard the tax duplicate can properly be regarded as one of the legitimate meas-





GRAPH NO. IV

INDEX OF COST OF GOVERNMENT (DIRECT TAX LEVY) COMPARED WITH  
 TAX BASE (ASSESSED VALUATION OF PROPERTY) POPULATION AND  
 DIRECT TAXES LEVIED ADJUSTED TO THE PURCHASING POWER OF THE  
 DOLLAR.  
 1913 = 100.

ures of wealth. And after making fair allowance for its inaccuracies it would appear that during the present decade the local tax burden, or cost of government, is increasing more rapidly than wealth in Ohio.

**A Comparison of Total Wealth with Taxes Levied and with the Assessed Valuation.**—The following graph is a comparison of estimated wealth in the state with taxes levied and the assessed valuation using again 1913 as a base year, and charting the percentage of increase or decrease involved. (Graph V.)

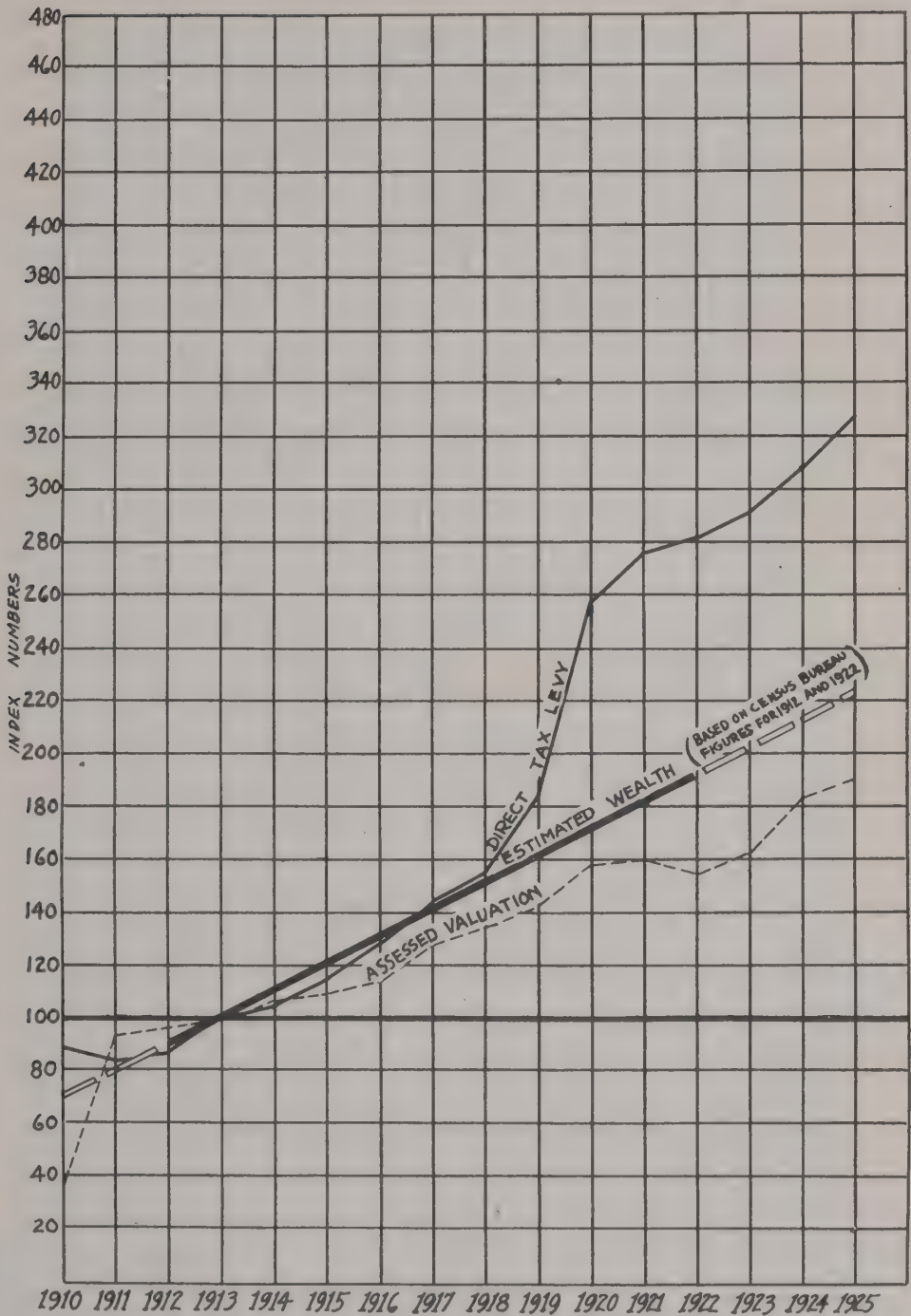
The curve for "Estimated Wealth" is based upon figures prepared by the U. S. Bureau of the Census for 1912 and 1922. The estimates of the Census Bureau are of actual physical wealth and do not include the value of such items as stocks and bonds or other classes of so-called representative wealth or of tax exempt property.

It is interesting to note that the percentage of increase for the assessed valuation runs consistently below that for total estimated wealth. This would indicate that property was undervalued for taxation purposes during this period despite the fact that most classes of representative wealth are taxable in addition to real and tangible property.

Of even more interest is the trend of increase for taxes levied as compared with the trend for estimated total wealth. It will be noted that according to this evidence the rate of increase for taxes levied has exceeded that for estimated wealth since 1917 with a sharp increase since 1919. While the Bureau of the Census does not make annual estimates of wealth the figures for 1912 and 1922 indicate the general trend presumably and may be regarded as a disinterested and careful attempt to estimate actual wealth.

In commenting upon this comparison it would appear to be questionable public policy for the rate of increase of taxes levied to exceed the rate of increase for real wealth for any extended period of time. Unless the bulk of taxes levied actually are used to protect the existing wealth of our citizens and to foster the creation of additional wealth, this existing tendency should not become a permanent public policy.

**Comparison of Tax Delinquencies with Taxes Levied — Rate of Increase.** — Some light may be thrown upon the tax burden question by a comparison of tax delinquencies with the



GRAPH NO. V

RELATION OF DIRECT TAX LEVY AND ASSESSED VALUATION TO THE ESTIMATED WEALTH OF THE STATE OF OHIO.



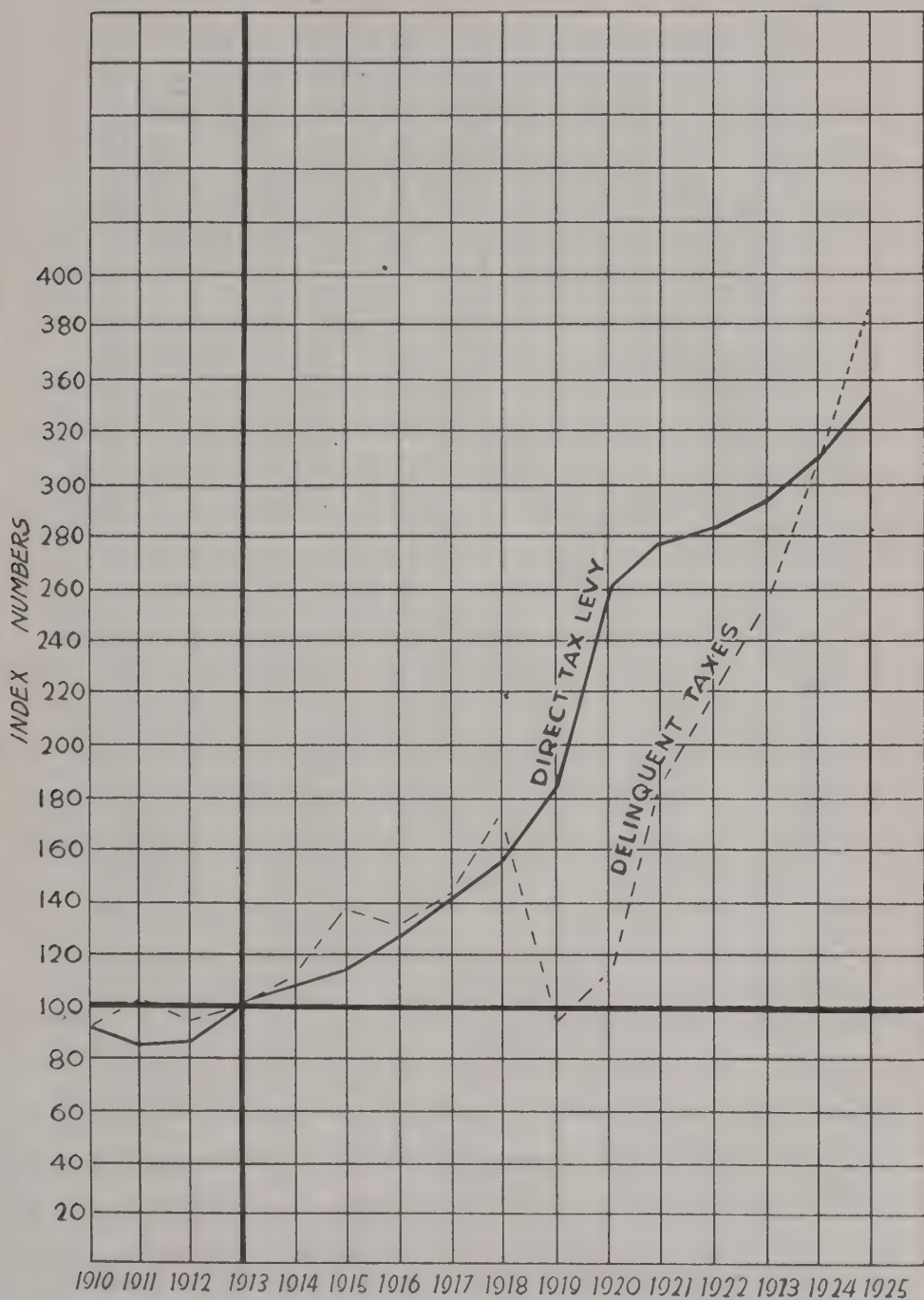
amount of taxes levied. This can be done best perhaps by comparing the rate of increase or decrease of each for a term of years.

The following graph shows a comparison for the period, 1910-1924. (Graph VI.)

In examining this graph a striking decrease in delinquencies in 1919 will be noted. This was not due to unusual collections at that time. Quite the reverse was the case. The authorities of Cuyahoga County "wrote off" a huge sum of delinquent personal property tax items as uncollectible which accounts for this apparent decline in delinquencies. So this decrease was only apparent and not real. It will be noted further that despite the fact that nearly half the total amount of delinquencies was wiped out in this manner the rate of increase has been very rapid since 1919. Since 1922 the rate of increase for delinquencies has exceeded that for taxes levied.

The trend of tax delinquencies is one measure of the severity of the tax burden. An increasing rate of delinquency is presumptive evidence of a decreasing ability to meet the tax burden. The comparison which has been made is not submitted as conclusive evidence of a relative decline in ability to pay the taxes levied. There is the possibility of less vigorous administration on the part of tax collecting officials. It is not asserted, however, that such is the case. Increasing delinquency, it may be argued, is largely due to an increasing ineffectiveness of the general property tax under the uniform rule of the constitution as a revenue measure rather than to any comparative decline in the general ability of the body politic to meet the cost of government. The exact weight that should be given to these qualifying factors is not known. It is not believed that the rapid increase in delinquencies can be entirely explained by the influence of these factors. Rather it is thought that this rapid increase indicates—presumptively at least—increasing difficulty during the period involved on the part of the body politic in meeting the cost of government.

**The Cost of Government and Social Income.** — Some additional light may be thrown upon the question of whether the tax burden is increasing more rapidly than is the ability of the tax-paying public to meet it by comparing the tax burden with the aggregate income of the inhabitants of the state. Such a comparison is a vital one because taxes for the most part must be paid out of income. Unfortunately available figures upon income are



GRAPH NO. VI

INDEX FOR DELINQUENT TAXES AND FORFEITURES AND INDEX FOR TAXES  
LEVIED FOR YEARS 1910 TO 1925 COMPARED.

1913 = 100

meager. Those which are available do not cover a sufficiently long period to warrant drawing any hard and fast conclusion.

The National Bureau of Economic Research in a publication entitled "The Distribution of Income in the Various States" presents estimates of total estimated income of the population of this state for the year 1919, 1920 and 1921. A report of the U. S. Treasury Department for 1923\* affords figures upon the gross income of Ohio corporations and net income of individuals for the years 1916 to 1923 inclusive.

The trends for these sets of figures and for taxes levied are shown upon the following graph. (Graph VII.)

#### **Comparison of Taxes Levied with Money Income in Ohio**

— This comparison is suggestive rather than conclusive. It covers too short a period to warrant much comment. Moreover the period includes certain years of marked trade and business depression which had a pronounced effect upon the income of individuals and corporations.

For the period involved it indicates that the rate of increase in taxes levied has exceeded that for income upon any of the bases employed. It indicates further that there was no reciprocal relation between the income experience during the depression period and the tax burden trend, i. e., while income was declining taxes were steadily mounting. It shows, however, that there was a marked recovery in the matter of income of individuals and corporations during 1921, 1922 and 1923 which if continued at a similar rate for some time might exceed the rate of increase for taxes levied.

**Valuation of Farm Crops and Taxes Compared.** — The chief source of income of the farmer is the products which he raises. Following is a statement of the estimated value of farm crops in Ohio for the period, 1910-1925. Percentages of increase or decrease are shown in the following graph together with similar percentages for taxes levied. (Graph VIII.)

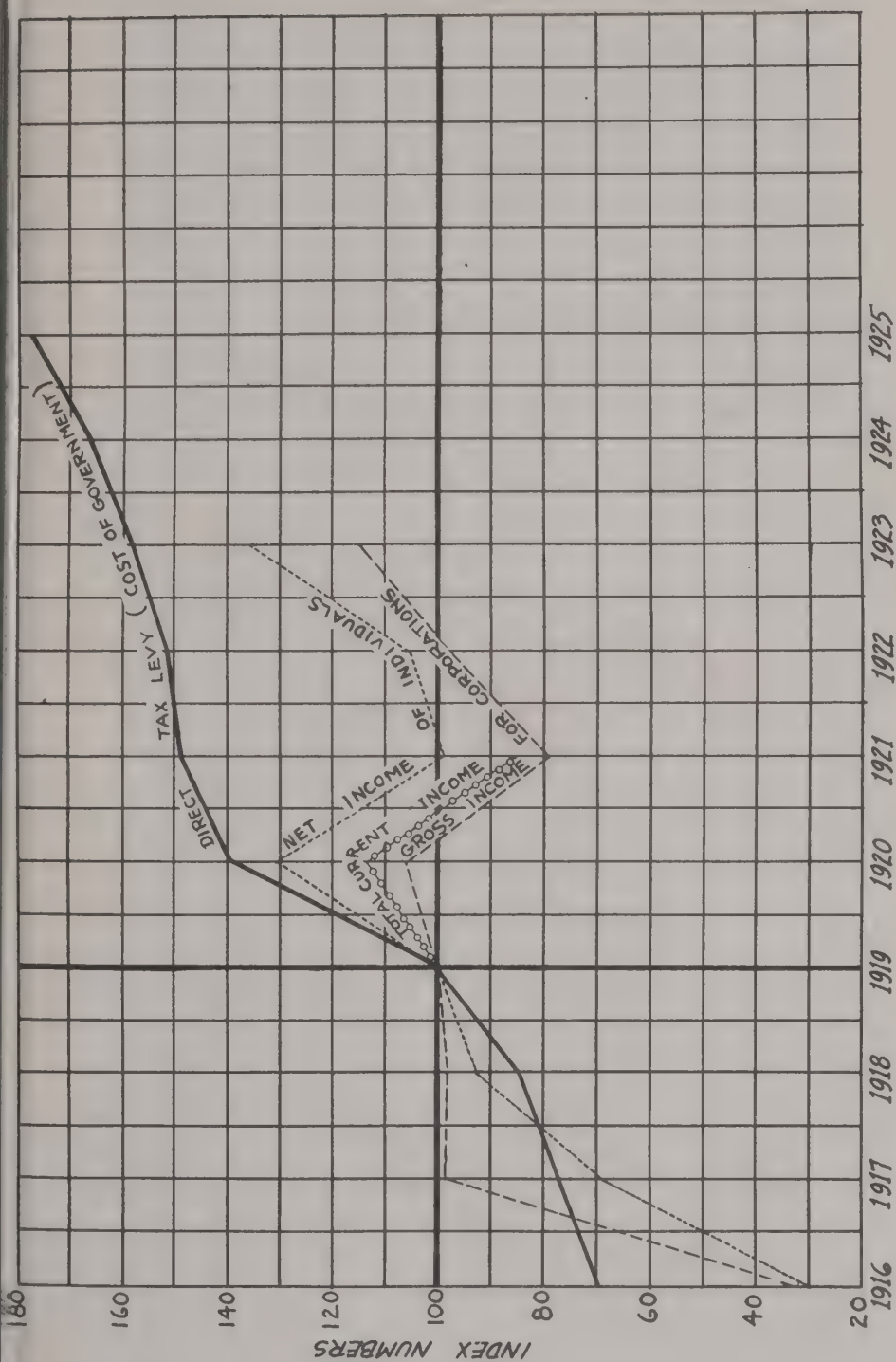
This graph would indicate that the farmer has had less tax-paying ability since 1919 than for the years immediately preceding since most of his income is derived from the sale of farm crops

**Causes of Increased Governmental Costs.** — It has been said that governmental costs rose sharply to a new level during

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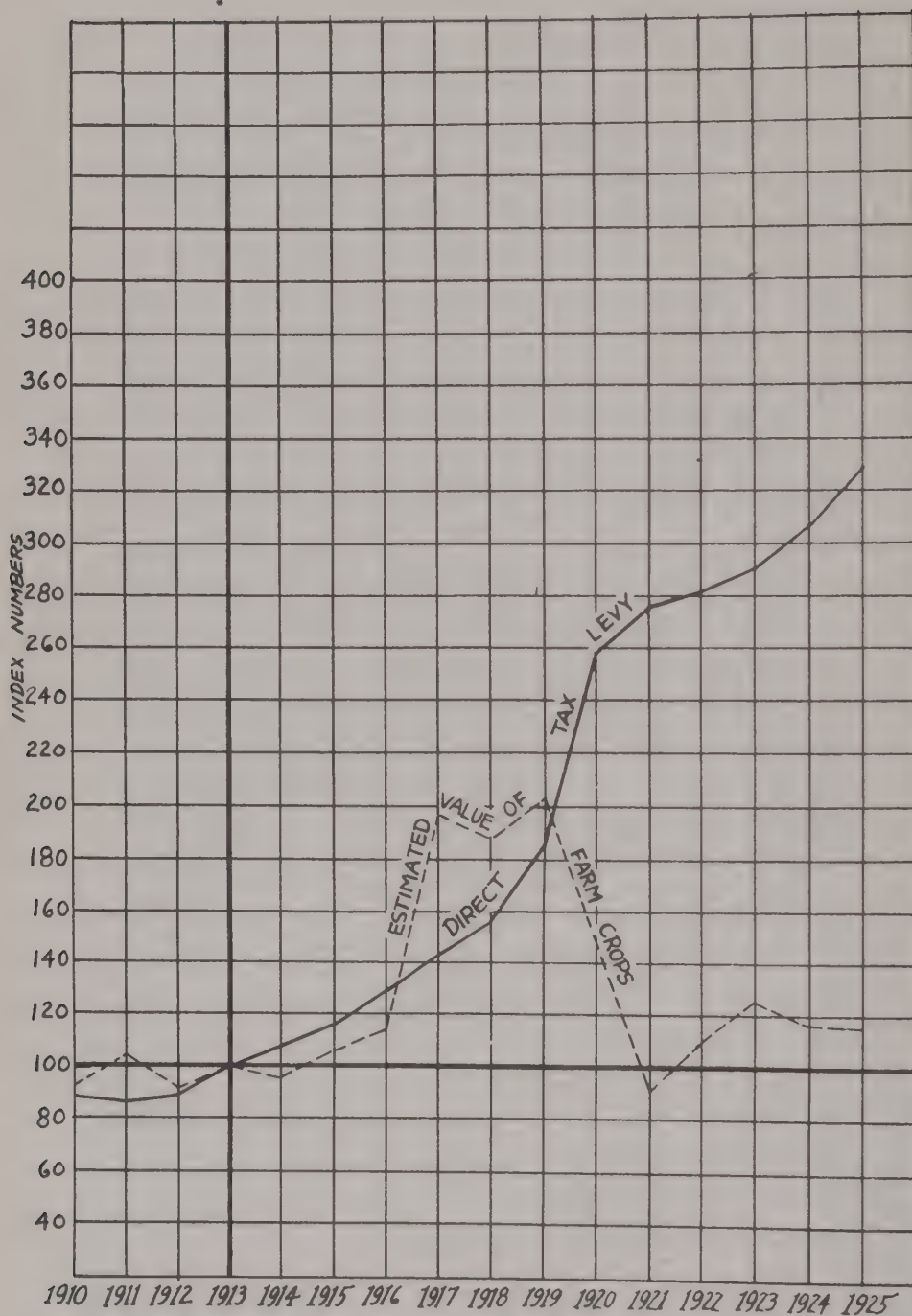
\* "Statistics of Income from the Returns of Net Income from 1923."





GRAPH NO. VII

INDEX OF DIRECT TAX LEVY (COST OF GOVERNMENT) COMPARED WITH THAT  
OF TOTAL CURRENT INCOME, NET INCOME OF INDIVIDUALS AND GROSS  
INCOME OF CORPORATIONS, STATE OF OHIO. 1919 = 100



GRAPH NO. VIII

INDEX OF DIRECT TAX LEVY COMPARED WITH THE INDEX OF ESTIMATED  
VALUE OF FARM CROPS. YEARS 1910 TO 1925, INCLUSIVE.

1913 = 100

1920 and 1921. It remains to comment upon the causes of this increase.

In 1920 the legislature levied 1.8 mills for the "Common School Fund," an increase of 1.745 mills over 1919. This accounted for the large increase of about \$18,000,000 over the state levy for 1919. The taxes levied for county purposes increased about \$9,500,000 in 1920 over 1919. Township taxes remained about constant. But for school purposes there was an increase of over \$15,000,000 in 1920 over 1919. For cities and villages the increase for 1920 over the previous year amounted to over \$13,500,000.00. Notable also was the increase for school purposes in 1921 over 1920 which amounted to nearly \$21,000,000, whereas for cities and villages the increase was only about \$7,000,000 for the same year. Likewise the yearly increase in taxes for school purposes has exceeded that of any other class of local government since 1913. Particularly has this tendency been marked since 1919.

The legislature in 1919 passed several measures designed to afford school districts financial assistance. The net effects of these measures were (a) to insure a sufficient levy for interest and sinking fund purposes; (b) to insure that nearly one-third of the 15 mills maximum could be made available for operating expenses, and (c) to allow for a levy of three mills outside of tax limits upon consent of the voters. These measures permitted the pronounced increase in taxes levied for school purposes in 1920 and 1921 which placed school costs on a level over 100% above that of 1918, but were not the cause of increased costs.

During the decade of 1910 to 1920 various factors contributed to an inevitable increase in school costs. First, there was a substantial increase in school attendance. In cities this was 47% for the decade and for the entire state 22%. Of great importance was the fact that the rate of high school attendance grew much faster than the total rate of increase and amounted to 70% for the period. (High school education is more costly per pupil than for the lower grades.) Because of this increase there was a demand for increased teaching personnel. Then there was the tremendous increase in price levels and living costs leading to a demand for increased salary rates. During this decade there were important additions to the school curriculum. These entailed added personnel and equipment. In the country districts



the number of centralized schools increased greatly, to wit, from 171 in 1910 to 722 in 1919. Also the junior high school movement got under way. Following the Collinwood fire of 1908 the school building code was revamped, resulting in the abandoning of certain school buildings, the remodeling of many others and necessitated more expensive types of construction in new structures. All of these factors had an irresistible effect upon costs and were to a large extent outside the power of school authorities or the legislature to control.

In the case of cities it is noted that there was a considerable increase in taxes levied occurring during 1920 and 1921. During the legislative session of 1919 a further financial relief measure was passed applying to all local governments. This was the so-called Gardner Act. It provided for placing existing interest and sinking fund levies outside the 15 mills tax limit upon consent of the voters. The effect of this was to create leeway within tax limits for additional operating levies where advantage was taken of the law. This act was a means whereby many cities and other taxing districts including schools secured additional operating levies. In 1920 the legislature passed a law suspending the operation of the Smith Law in any taxing district for three years upon a favorable vote of 60% of those voting upon the question. By means of these two measures many cities secured additional levies.

The financial plight of the cities was perhaps second only to that of the schools during this decade. The revolution in price levels and the inflexible tax limit laws together with the fact that little attempt was made to revalue property in the light of advanced market values placed cities as well as other taxing districts in a financial strait-jacket. The bonds had to be loosened if local governments were to carry on. Thus it was that there was a march of events during the decade, 1910-1919, which made an increase in money costs inevitable. From the standpoint of the taxpayer it was to be regretted that the cumulative effect of these events in this state, because of the effects of the Smith Law, was largely deferred until the peak of the inflation period had passed and a general recession in business and prosperity had taken place.

**Conclusion.** — It has been shown that the money cost of local government has been increasing steadily during the period

reviewed, 1910-1925. Taxes levied have been adjusted to changes in the purchasing power of the dollar using 1913 as a base year. On this basis the cost of government is shown as declining during most of the war period and as increasing since that time. It appears that by 1920 governmental costs had risen to a new level from which there has been no recession.

Effort has been made to gauge the significance of the upward trend of governmental costs by comparing it with various other things, such as the trend of commodity prices, wages, the growth of the tax base or assessed valuation, the growth of population, the growth of wealth, social income and the trend of tax delinquencies.

The outstanding observation to be made upon all of these comparisons is that the rate of increase in the cost of local government, expressed in terms of taxes levied, exceeds the rate of increase for each of these other factors either for the entire period studied or since 1920. In making these comparisons the best available figures upon wealth, population, income, etc., have been used. Based upon the 1913 dollar the real tax burden has increased 139% since 1910. Moreover most of this increase has come since 1920. With the opening of this decade, governmental costs seem to be on a new level. Certain it is that the cost of local government is a matter of increasing importance in this state. It should not be regarded lightly or in a prejudiced manner.

The Committee is aware that despite the various comparisons which have been made it has given no answer to the question of whether government is worth *all* that it costs. The value of some governmental services can be measured in money terms. Many are of such character as to defy any direct monetary evaluation. Thus the propriety of many governmental expenditures is a matter of judgment and opinion or of long and painstaking observation.

## CHAPTER IV

### The Public Debt of Local Governments

The growth of the public indebtedness of local governments within the state has been enormous during the last two decades. Viewed by the standards of a quarter of a century ago the aggregate increase year by year would no doubt be appalling. A total gross debt for these local governments approaching a billion dollars would have seemed staggering indeed. However, the piling up of huge debts became such a common practice during the war period and after on the part of so many governments that the average citizen's capacity for astonishment and apprehension has become dulled. Happily the federal government has made substantial progress already in reducing the war debt. No such tendency is present with our local governments in this state. Instead, each year sees the debt burden of these governments grow by tens of millions of dollars. It is recognized that the war debt was incurred mainly for goods and services used during that period, while the indebtedness of local governments in very large part represents outlays for various kinds of enduring and useful public improvements. Nor is it here intimated that the soundness of a public debt policy can be determined by consideration solely of its rate of increase.

**The Growth of the Total Debt.** — The growth of the combined gross indebtedness of the local governments in the state for the period of 1910 - 1925 is shown below.

TABLE IV  
CONSOLIDATED TOTAL OF ALL LOCAL DEBT  
1910 — 1925

1910 .....	\$188,146,146
1911 .....	199,260,470
1912 .....	218,754,113
1913 .....	247,331,459
1914 .....	293,685,437
1915 .....	356,028,968
1916 .....	No report
1917 .....	414,163,520
1918 .....	434,047,798

1919 .....	456,487,442
1920 .....	510,266,426
1921 .....	607,899,059
1922 .....	679,087,137
1923 .....	760,589,834
1924 .....	818,920,044
1925 .....	879,143,684

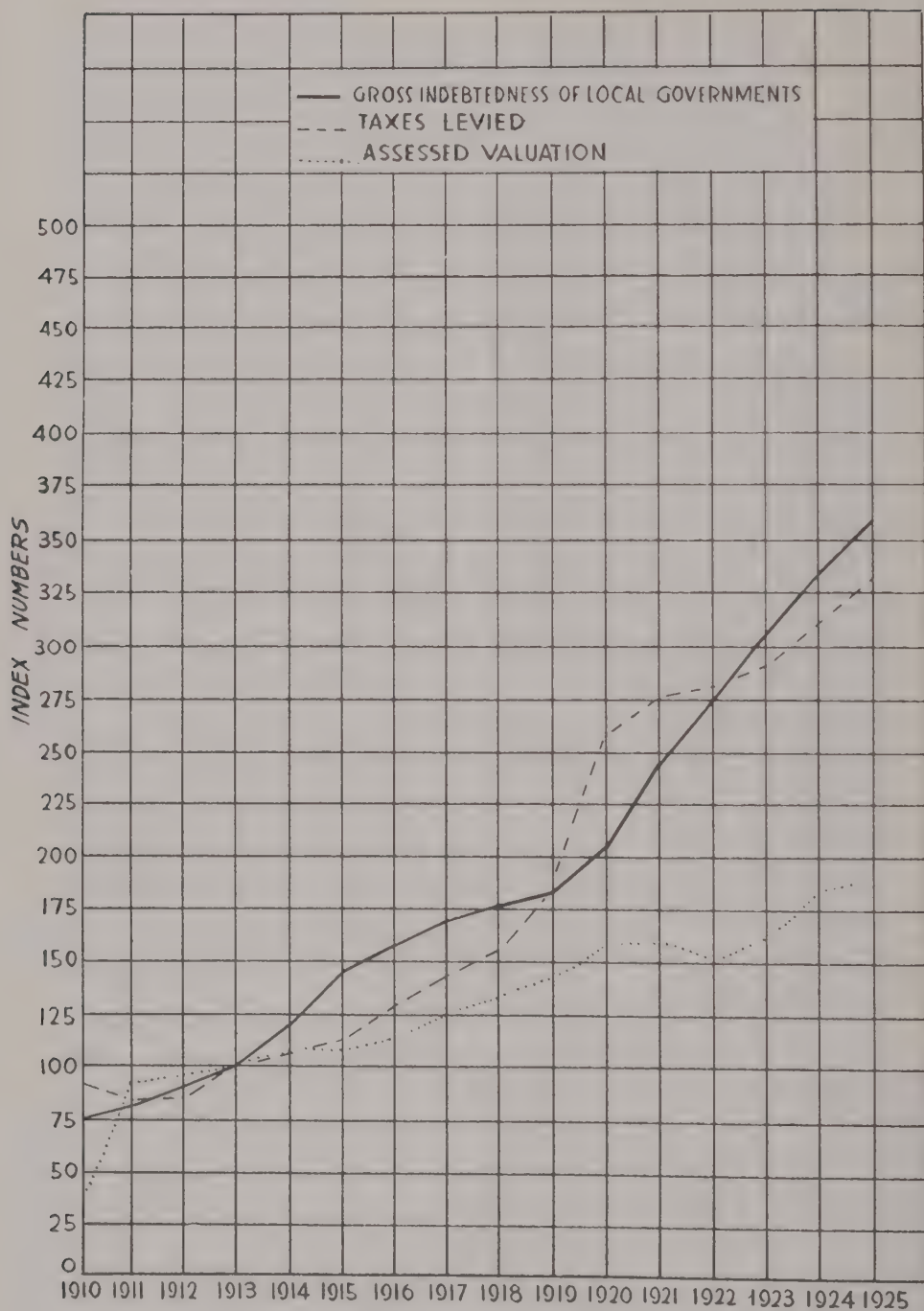
This shows that there has been an increase year by year but that it has fluctuated considerably in amount. The annual increase was notably smaller during the time America was participating in the war. Also it shows clearly that when war time restrictions were removed the annual increase showed a marked rebound. For in 1920 and 1921 the combined increase was over \$150,000,000 which was about one-third of the total amount outstanding in 1919, and since 1921 the annual increase has been about as great as during these years.

**Comparison of the Debt with Taxes Levied and the Tax Duplicate.** — Perspective is necessary when viewing the problem of public indebtedness. Its relation to other things should be traced. Comparison is therefore made to taxes levied and the tax duplicate. There must be a direct relation between taxes levied and the public debt because for the most part interest and sinking fund payments must be met from tax money. There also should be a rational relation between the tax duplicate and the amount of indebtedness, at least during any extended period.

A graph showing the relation of taxes levied, the assessed valuation and the total gross indebtedness of local governments is therefore shown below. The year 1913 has been selected as a base year.

The graph shows that the index for the public debt exceeds that for the assessed valuation consistently and at the end of the period was proceeding at about twice the rate of that for the assessed valuation. The inference of two trends would seem to be that the mortgage on the taxable property of the state which this indebtedness represents is growing both absolutely and relatively larger. So long as the tax base increases relatively as fast the rate of increase for indebtedness the taxpayer and governments are not incurring proportionately greater burdens. But if the rate of increase for debt is greater than the rate of increase in value of the property which is being mortgaged a much different condition ex-





GRAPH IX

INDICES FOR TOTAL GROSS INDEBTEDNESS OF LOCAL GOVERNMENTS, ASSESSED VALUATION AND TAXES LEVIED COMPARED 1910-1925.

1913 = 100

ists. And it is a condition which cannot go on indefinitely without producing disastrous results.

Upon its face the present tendency appears unsound. However, it must be borne in mind that there has not been a periodic and thoroughgoing appraisal of property for taxation in very many of the counties of the state since 1910. In this whole matter figures of reappraisal must be awaited with great interest and for additional light.

The relationship between the rates of increase for taxes levied and for indebtedness is equally interesting. For the period 1913-1919 the rate of increase for indebtedness is the more rapid. During this period as previously explained the policy of the Smith Law restricted tax levies at all costs and not only failed to limit debt but actually forced local officials to borrow money even for current expenses.

From 1919 to 1922 the situation was reversed and the rate of increase for taxes levied exceeded that for indebtedness. The reasons for a sharp increase in taxes during this period have already been touched upon in Chapter III. Also there was a greater incentive to levy the correct amounts for debt retirement purposes because the stricture upon operating levies was not so acute. The restrictions upon increased tax levies of the Smith Law were much stricter than on borrowing, hence the marked increase of taxes levied when circumstances finally forced a modification of the Smith Law resulting in a rate of increase exceeding for a time the more normal rate of increase for indebtedness. But since 1919 it will be noted that the rate of increase for indebtedness has taken a sharp and steady rise. By 1922 it equalled the rate of increase for taxes levied and by 1924 exceeded the taxes levied "curve" considerably. Such a situation cannot go on indefinitely for debts must be paid for the most part from the proceeds of tax levies and sooner or later the tax burden would be so grievous that further addition would be out of the question.

**Distribution of the Debt among the Several Classes of Taxing Districts.**—After tracing the general relationships between indebtedness, taxes levied, and assessed valuation, it is of interest to note how the outstanding debt is distributed among the several classes of local governments and how it has grown for each class for the period of 1910-1925. The following tabula-

tion shows the growth of the debt for each class of taxing district for this period.' (See Table V.)

A glance at these figures reveals that the gross indebtedness of municipal corporations, i. e. cities and villiages, aggregates the largest sum for any of the classes of local governments and this has been true for each year of the period covered by this tabulation. Interesting it is though that the *rate of increase* has been lower for city and village indebtedness than for any of the other classes of taxing districts.

In 1924 the school indebtedness was equal to about 43% of that for cities and villages and roughly one-fourth of the total indebtedness for all taxing districts. In 1910 the school indebtedness was only about 12% of the city and village debt and but 9% of the total indebtedness. The county debt substantially exceeded the school debt in 1910, but by 1920 the situation was sharply reversed. Since 1920 this tendency has been more accentuated. Thus school indebtedness, particularly since 1920, has been becoming rapidly of more relative importance. It is to be borne in mind however, that its total amount is not nearly so impressive as that for cities and villages which in 1925 comprised over 57% of the total gross debt. In fact at that time the percentage of the total debt ascribable to each class of taxing districts was as follows:

Counties .....	15.7
Townships .....	1.7
Cities and Villages.....	57.7
School Districts .....	24.9
<hr/>	
Total .....	100.0

TABLE V  
CONSOLIDATED LOCAL DEBT STATEMENT 1910 TO 1925 INCLUSIVE

Year	Counties	Pct. of Increase	Townships	Pct. of Increase	Cities and Villages	Pct. of Increase	School Districts	Pct. of Increase	Total	Pct. of In-crease
1910	\$26,979,085	.....	\$2,671,127	.....	\$140,977,381	.....	\$16,946,729	.....	\$187,574,322	.....
1911	28,574,388	5.91	3,560,824	32.93	147,074,301	4.32	20,060,957	18.37	199,260,470	6.23
1912	31,132,276	15.39	4,084,408	52.90	158,664,961	12.54	24,872,468	46.76	218,754,113	16.62
1913	33,213,891	41.64	4,896,424	83.30	175,772,563	24.68	28,448,561	67.87	247,331,459	31.85
1914	47,110,538	74.61	6,424,216	103.06	204,427,771	45.00	36,722,910	116.69	293,885,437	56.57
1915	56,047,442	107.74	7,260,323	171.80	244,013,556	73.08	48,707,647	187.41	366,028,968	89.80
1917	62,332,052	131.22	10,829,345	305.42	279,341,989	98.14	61,610,132	263.55	414,163,520	120.79
1918	66,252,252	145.56	10,305,701	283.81	288,317,575	104.50	68,985,267	307.07	434,047,798	131.40
1919	70,656,077	161.89	10,749,961	302.45	297,322,201	110.90	77,759,200	358.84	456,487,442	143.36
1920	77,098,116	185.76	12,190,764	356.39	320,825,297	127.57	100,152,287	490.98	510,266,465	172.03
1921	89,261,378	230.85	12,605,924	371.93	373,002,351	164.58	133,029,406	684.98	607,899,059	224.08
1922	101,846,296	277.50	13,107,177	390.69	404,073,713	186.62	160,039,951	844.48	679,087,137	262.03
1923	118,693,312	339.94	14,131,510	429.04	438,030,392	210.70	189,734,710	1,019.59	760,589,834	305.48
1924	128,658,657	376.88	14,626,504	447.57	472,142,481	234.90	203,492,452	1,100.77	818,920,044	336.58
1925	137,616,310	410.08	14,739,327	451.80	507,187,587	259.76	219,600,460	1,195.83	879,143,684	368.69

Reference: Consolidated local debt statement contained in the Annual Reports of the Auditor of State, years 1910 to 1925, inclusive, excepting year 1916.

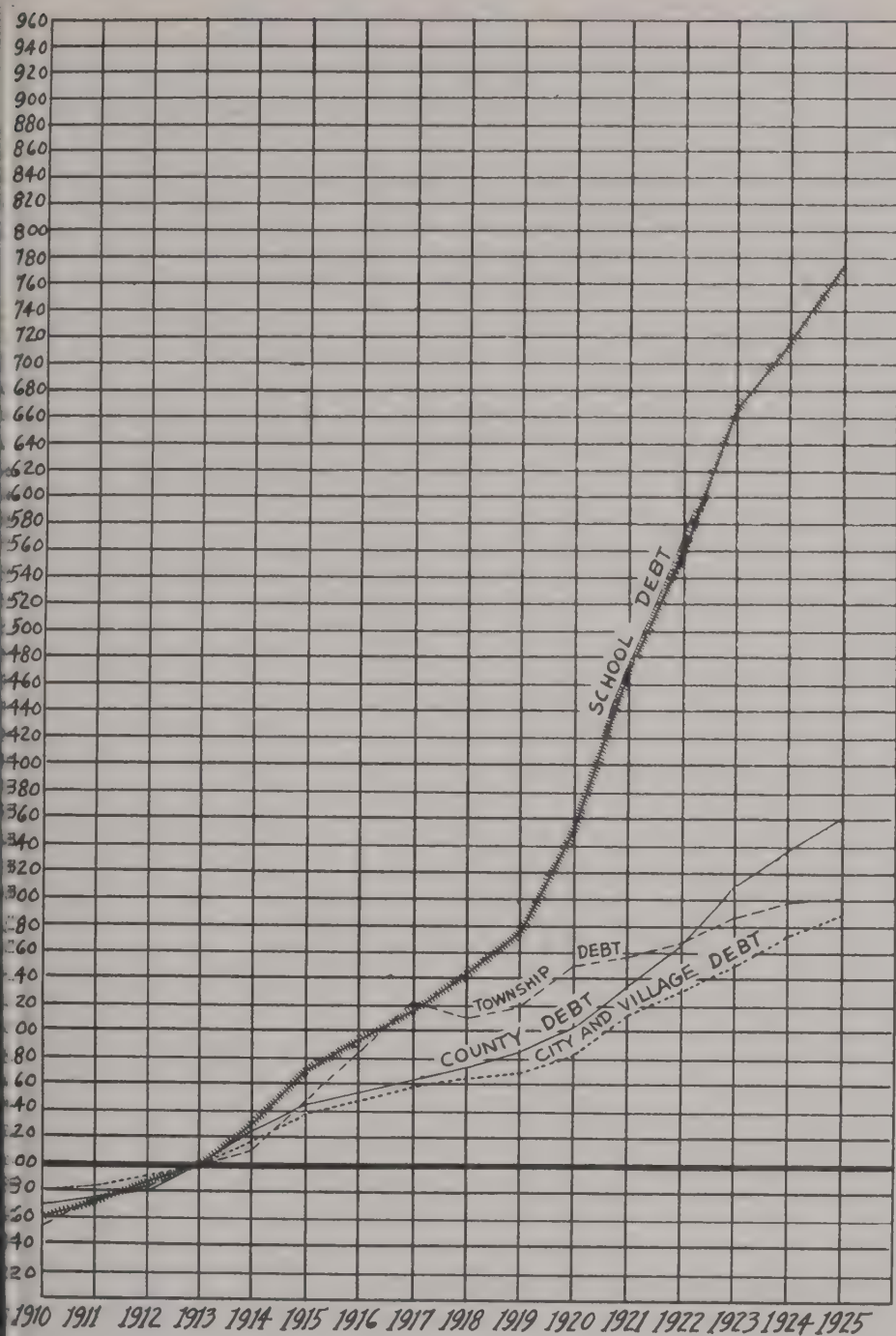


**A Graphic Presentation of the Increase of Local Indebtedness.** — The following graph shows the rate of increase for the indebtedness of cities and villages, school districts, counties and townships for the period 1910-1925 with 1913 as a base year.

The startling feature of this graph is of course the "curve" for school indebtedness. Its index renders insignificant the indices for the other classes of taxing district. Its index in 1925 over 1913 is 771.9, for counties 360.1, for townships 301.0, and for cities and villages 288.5. The rate of increase for school indebtedness, it will be noted, has accelerated greatly since 1919. This is due principally to unusual expenditures for new school buildings and sites during this period. Wartime restrictions upon building operations were drastic and at the same time enrollment was increasing rapidly. This resulted in a marked shortage of school housing facilities in many communities which naturally caused a demand for its correction. The pertinent inquiry to make is whether this peak period of building operations which has caused the very pronounced rate of increase in school indebtedness since 1919 is still to continue or not. It is obvious that the rate of increase for school indebtedness shown for the past fifteen years cannot continue indefinitely without becoming a very acute problem. Only the fact that the aggregate school indebtedness now comprises only about a quarter of the total local indebtedness prevents a critical condition at the present time.

The Committee has given considerable study to the present status of school housing facilities and the outlook for the immediate future. All this is discussed at some length in a later chapter. Suffice it to say here that there is substantial evidence indicating that the "peak period" has been passed and that future school building needs will be largely those arising from the current and normal increases in school population. If this view proves to be the correct one there should be a marked decline in the rate of increase of school indebtedness during the next decade.

It has been noted that the rate of increase is lowest for municipal corporations. This is interesting because cities have occasion to borrow money for a wider range of purposes than any other class of taxing district. Likewise cities and villages have been accustomed to the borrowing process for a longer period of time than school districts for example. Just what effect the statutory debt limitation has had upon municipal bor-



GRAPH NO. X

INDICES FOR DEBT OF SCHOOL DISTRICTS, CITIES AND VILLAGES, COUNTIES  
AND TOWNSHIPS COMPARED.

1913 = 100.

rowing is not known, but it probably has not been a deterrent in many instances.\*

**Purposes for which Indebtedness has been Incurred by Local Governments.** — After a discussion of the amount and growth of the debt it is pertinent to set forth the indebtedness of the several classes of taxing districts classified according to the purposes for which it has been incurred. While it is a well-known fact that our governments can borrow money only for specific purposes defined by law, it is of interest to know to what extent the borrowing power has been used for various purposes by local governments. The following statements show the indebtedness of the several classes of local governments as of June 30, 1924, classified by purposes.

TABLE VI.

SUMMARY OF OUTSTANDING DEBT, 93 CITIES OF OHIO, YEAR ENDING  
JUNE 30, 1924

## Classified by Purposes

## GENERAL DEBT

Street Improvement (City's Portion).....	\$49,673,791 83
Street Repairs (City's Portion).....	4,253,682 37
Street Cleaning and Sprinkling (City's Portion).....	161,900 00
Sidewalks (City's Portion).....	552,849 71
Sewers and Drains (City's Portion).....	36,509,234 02
Bridge and Viaduct.....	10,988,656 00
Grade Crossings.....	8,156,232 10
Subways .....	489,000 00
Parks .....	21,168,369 39
City Hall and Public Halls.....	13,280,251 70
Market House.....	1,042,280 00
Library .....	429,850 00
Hospital .....	12,610,315 00
Garbage and Refuse Disposal.....	2,816,550 00
Sewage Disposal.....	7,765,187 96
Fire Department.....	7,213,868 40
Police Department.....	1,794,308 51
Deficiency (Relief Acts).....	32,539,819 59
Street Improvement —	
(Extension and Openings, Signs, Sidewalks, Retaining	
Walls, Street Equipment, etc.).....	4,604,578 35

\* The Committee attempted to get information upon this point by a questionnaire to all the principal cities, but the replies were very meager.

Final Judgments.....	282,179 00
Refunding Bonds.....	7,514,072 81
Emergency —	
(Emergency and Health Emergency, including Highways, Flood, Fire, Epidemics, etc.).....	1,190,475 00
Correctional and Penal Institutions —	
(Refuge, Workhouses, City Farms, Infirmaries, etc.).....	1,254,500 00
University .....	1,683,300 00
River and Harbor Improvements —	
(Including Flood Protection).....	6,427,860 00
Public Safety —	
(Fire and Police Alarms, etc.).....	195,100 00
Street Lighting —	
(General Lighting Equipment, Power Lines, etc.)...	200,910 00
Public Health.....	1,402,000 00
Public Buildings and Lands —	
(Monuments, Memorials, Furniture and Equipment, Armories, etc.).....	559,460 00
Public Health and Recreation —	
(Comfort Stations, Bath Houses, Natatoriums, etc.).....	1,097,690 00
Cemeteries .....	299,310 48
Annexed Villages.....	557,215 21
Water Main Extensions.....	151,684 00
Miscellaneous .....	1,449,068 78
<hr/>	
Total General Debt.....	\$240,315,550 21
Utility Debt .....	130,371,597 22
Special Assessment Debt.....	54,769,589 47
<hr/>	
Grand Total.....	\$425,456,736 90

## TABLE VII.

## VILLAGE DEBT

As of June 30, 1924

Classified by Major Purposes

## PUBLIC UTILITY

Water Works.....	\$7,045,992 75
Electric Light and Gas.....	1,487,242 32
Miscellaneous .....	18,000 00

## GENERAL DEBT

Street Improvements.....	5,768,617 66
Street Repairs.....	192,408 00
Street Cleaning and Sprinkling.....	843 90
Sidewalks .....	83,013 70
Sewers and Drains.....	2,059,723 70
Parks .....	188,700 00



Town Hall.....	429,610 00
Library .....	5,000 00
Garbage Disposal.....	800 00
Sewage Disposal.....	1,291,466 52
Fire Department.....	521,978 00
Deficiency .....	1,075,868 54
Refunding .....	112,828 67
Real Estate and Armory Sites.....	10,105 66
Cemetery .....	16,300 00
Streets .....	10,250 00
Water Mains.....	160,120 00
Emergency .....	9,500 00
Judgments .....	2,100 00
Subway and Bridges.....	94,400 00
Public Comfort Station.....	16,000 00
Miscellaneous .....	158,862 62
Total .....	<u>\$20,759,732 04</u>

## SPECIAL ASSESSMENTS

Street Improvements.....	\$17,390,277 62
Street Repairs.....	594,152 51
Street Cleaning and Sprinkling.....	10,606 62
Sidewalks .....	1,485,769 56
Sewers and Drains.....	4,673,106 67
Miscellaneous .....	1,952,174 28
Total .....	<u>\$26,106,087 26</u>
Grand Total.....	<u>\$46,892,552 24</u>

## TABLE VIII

## SCHOOL DEBT

as of June 30, 1924

Classified by Major Purposes

## CITY SCHOOLS

Buildings and Sites.....	\$127,980,639 15
Repairs and Alterations.....	1,572,000 00
Tuition .....	1,170,079 29
Interest .....	24,000 00
Equipment .....	654,789 78
Deficiency .....	4,112,330 49
Deficiency, H. B. 599 — Sec. 5655, G. C.....	4,091,174 26
Library .....	3,500 00
Miscellaneous .....	16,000 00
Total .....	<u>\$139,656,012 97</u>

## OTHER SCHOOL DISTRICTS

Buildings and Sites.....	\$53,499,233 24
Repairs and Alterations.....	2,041,847 39
Tuition .....	1,351,518 90
Interest .....	82,737 40
Equipment .....	733,654 58
Deficiency .....	2,321,407 50
Deficiency, H. B. 599—Sec. 5655, G. C.....	3,376,513 53
Transportation .....	2,000 00
Teachers Retirement .....	1,200 00
Emergency .....	65,000 00
Refunding .....	34,500 00
Miscellaneous .....	64,219 77
Total .....	\$63,670,226 14
Grand Total .....	\$203,326,239 11

## TABLE IX

## COUNTY DEBT

as of June 30, 1924

Classified as to Major Purposes

## GENERAL DEBT

Roads .....	\$53,419,596 80
Ditches and Drains.....	999,265 27
Bridges and Culverts.....	17,378,129 14
Court House and Jail.....	10,453,675 75
Children's Home and Infirmary.....	890,962 00
Hospitals .....	2,251,900 00
Deficiency .....	1,403,848 00
Experimental Farm — Agricultural Societies.....	54,500 00
Refunding Bonds .....	144,610 00
Emergency—Flood, Fire and Epidemic.....	1,945,229 17
Funding Floating Debt.....	24,000 00
Memorial Buildings and Armory.....	821,000 00
Fair Grounds and Building.....	69,500 00
Detention Home .....	43,000 00
Grade Eliminations and Subway.....	10,500 00
Miscellaneous .....	644,623 20
Total .....	\$90,554,339 33

## SPECIAL ASSESSMENTS

Roads .....	\$24,555,499 73
Ditches and Sewers.....	13,210,603 19
Water Distributing System.....	282,370 00
Miscellaneous .....	45,000 00
Total .....	38,093,472 92
Grand Total .....	\$128,647,812 25

TABLE X  
TOWNSHIP DEBT  
as of June 30, 1924  
Classified as to Major Purposes

GENERAL DEBT	
Roads, Sidewalks, Bridges.....	\$8,361,967 67
Township Halls .....	130,484 88
Cemetery .....	23,513 27
Road Machinery .....	80,840 31
Epidemic .....	306 68
Deficiency .....	13,512 00
Fire Protection and Equipment.....	15,200 00
Library and Memorial Building.....	28,500 00
Miscellaneous .....	33,350 00
Total .....	\$8,716,642 41
SPECIAL ASSESSMENTS	
Roads and Sidewalks.....	\$5,920,529 63
Grand Total .....	\$14,637,172 04

**Summarization of Purposes for which Debt has been Incurred by Local Governments.**—A general picture of the way the indebtedness of local government is divided as to the principal or major purposes for which it has been incurred is desirable. Accordingly the indebtedness of all these local governments as of June 30, 1924, has been thrown into a few such broad classifications. This summarization appears below.

TABLE XI  
SUMMARY OF THE AGGREGATE AMOUNT OF INDEBTEDNESS OF ALL OHIO COUNTIES, TOWNSHIPS, CITIES, INCORPORATED VILLAGES AND SCHOOL DISTRICTS AS OF JUNE 30, 1924, CLASSIFIED ACCORDING TO MAJOR PURPOSES.

	Purpose	Amount	Percent
(1)	Public Buildings, Grounds and Parks (Except School Buildings and Sites).....	\$73,809,000	9.0
(2)	School Buildings and Sites.....	181,480,000	22.2
(3)	Highways, Streets, Sidewalks, Grade Crossings, Bridges and Subways.....	164,281,000	20.1

(4) Public Utilities (Water, Electric Light, Gas, Etc.) .....	139,418,000	17.0
(5) Special Assessments .....	124,890,000	15.2
(6) Health and Sanitation, Safety, Recreation and Emergency .....	65,795,000	8.0
(7) Deficiency and Refunding.....	59,396,000	7.3
(8) River and Harbor Improvement.....	6,428,000	.8
(9) Unclassified .....	3,423,000	.4
<hr/>		
Total .....	\$818,920,000	100.0

This table reveals that indebtedness has been incurred principally for three general purposes, i. e., public buildings of various sorts, grounds and parks, (2) highways and streets with their adjuncts such as sidewalks, bridges, etc., and (3) public utility enterprises, largely water works. The special assessment debt represents in very large part the property's portion of street and highway improvements. Somewhat over 75% of the total indebtedness can be attributed to these three general purposes. School buildings and grounds, comprise about 71% of the first classification. The public utility debt is 17% of the total debt. The interest and retirement charges upon the public utility debt are met very largely from the earnings of the utilities involved.

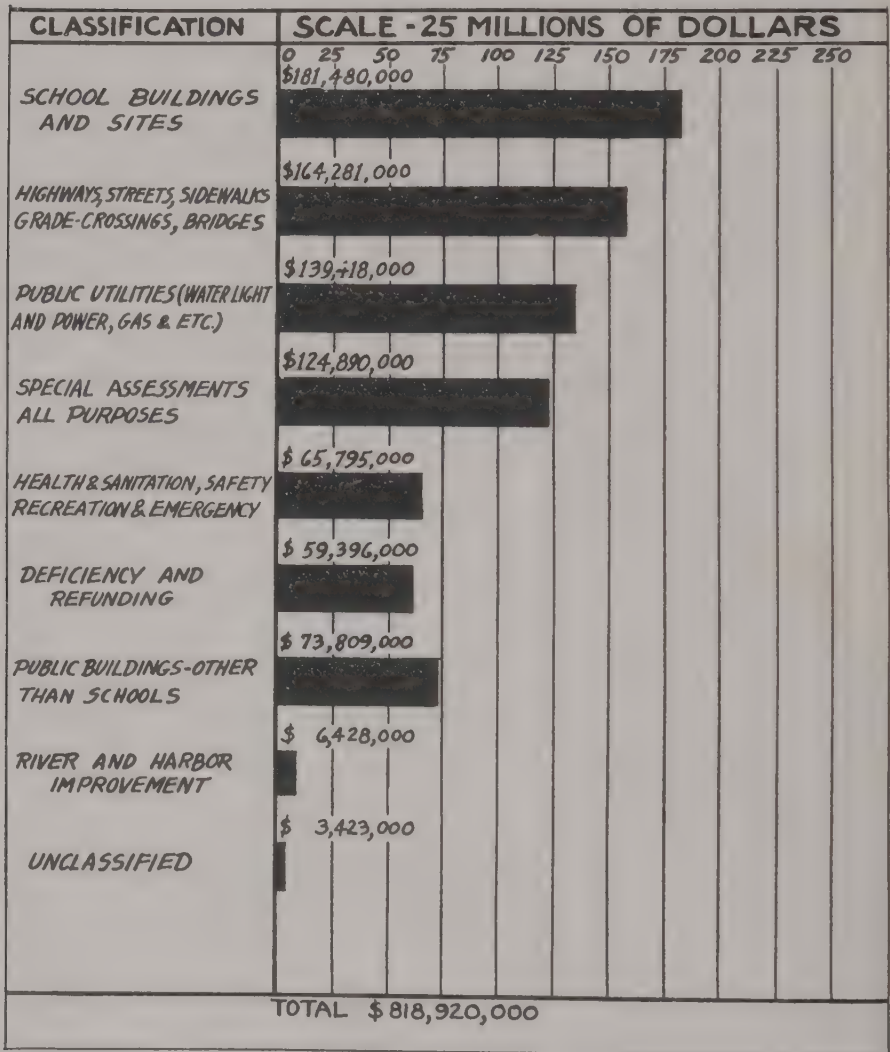
It is not to be gainsaid that these three major purposes comprise types of improvements which are useful and indeed vital to modern communities. The same observation may be made as to classifications 6 and 8. The only questions involved are whether local communities have provided such improvements and facilities beyond actual needs or what they can really afford and whether borrowing is generally speaking the wisest means of financing them. These are questions which admit of no easy answer. The rapidity with which indebtedness has been incurred as compared with population, the tax base and total taxes as well as taxes levied for operating purposes of government would perhaps throw the burden of proof upon those that contend that all the indebtedness for these purposes is amply justified and defensible.

As to the classification of bonds issued for "deficiency and refunding" purposes there can be no defense except that of expediency. Borrowing for deficiency purposes cannot be defended



## GRAPH NO. XI

A COMPARISON OF THE INDEBTEDNESS OF ALL OHIO COUNTIES, TOWNSHIPS, CITIES, INCORPORATED VILLAGES AND SCHOOL DISTRICTS COMBINED AS OF JULY 1, 1924, CLASSIFIED ACCORDING TO MAJOR PURPOSES.



as sound public policy. Such indebtedness is assuredly a millstone around the taxpayer's neck. It is "paying for dead horses". For a government to fund on a long time basis any portion of its current or ordinary operating expenses marks the beginning of a ruinous financial policy. Such a policy should be avoided as the plague. It may be said that indulgence in this practice by many of our local governments was induced by the rigidity of our tax limit laws and the failure to rigorously and periodically appraise property during a period of rapidly shifting price levels. This no doubt had much to do with the practice. It illustrates clearly how one set of unsound practices can involve communities in another practice which is still worse in its consequences. Fortunately the issuing of bonds for deficiency purposes has been outlawed.

The refunding of bonds is to be condemned in about as vigorous terms. Bonds have in most instances been issued for terms no shorter than the probable life of the improvement financed by them. To refund these bonds when they come due for retirement means that taxpayers will be called upon to pay for improvements long after they have worn out or become obsolete. It means also that those who have enjoyed the use of such improvements have escaped paying for them. For them it is a very effective way of "eating their cake and having it" too. But its injustice should be apparent to all because it throws the burden upon those who had no part in incurring the debt and who have had little or no benefits from the improvements involved. Happily, the present requirement that all bonds issued shall be of the serial type in itself prevents much further indulgence in the refunding practice.

#### **The Financing of Capital Improvements by Borrowing.—**

Borrowing is the prevalent method of financing local improvements in Ohio taxing districts. Comparatively few capital improvements are paid for directly from the proceeds of tax levies. Particularly has financing through borrowing been on the increase since the passage of the Smith law. This is notably true of school districts which prior to that time paid for buildings and equipment in large part by direct tax levies. Today the financing of any important local improvement by the pay-as-you-go method is exceptional. The pay-as-you-go method has at best found only academic acceptance.

The arguments advanced in favor of borrowing as a means of financing various sorts of capital improvements are well known. Only the mention of them is necessary here. It is said (a) that borrowing enables a community to spread the burden of an expensive but durable improvement over a term of years instead of having its cost represent a sudden and drastic expense; (b) that it does not throw the entire cost upon those who happen to be paying taxes at the time the improvement is made but distributes the burden among all those taxpayers who enjoy the benefits of the improvement during its life; (c) that the use of the public credit of a community makes possible the building and enjoyment of many improvements that otherwise would have to be foregone or greatly delayed and; (d) that a community by such use of its credit can stimulate growth and economic development to an extent which will amply justify the indebtedness.

These are all good arguments when judiciously applied. So plausible, however, are the arguments for utilizing the public credit for a variety of purposes that the legislature has found it necessary to regulate and restrict its use with more and more care. The purposes for which public credit may be used have been restricted by outlawing deficiency borrowing or borrowing for improvements or equipment having an estimated life of less than five years, bond terms have been more closely related to the probable life of the improvements involved, the serial type of bond has been made mandatory, statutory debt limits have been tightened, the power of local legislative bodies to issue bonds has been further restricted. Despite all this, local indebtedness continues to increase at an accelerated rate in the face of these added restrictions made since 1920. It is no doubt true, however, that the full effect of these restrictive measures has not yet made itself felt.

**The Pay-as-you-go Plan for Financing Public Improvements.** — There is much to be said for the pay-as-you-go plan of financing many public improvements. Particularly is this true of types of improvements which are being continuously provided by a local government. Any large city, for example, is paving or repaving a considerable number of its streets each year. It is the usual order of things rather than an unusual type of expenditure such as that for a city hall or memorial. By continu-

ally borrowing to finance the city's portion of the cost of the annual quota of street building the annual interest charges on such outstanding bonds rapidly approach the amount of the principal sum borrowed each year. Where such a condition obtains it is obvious that it would be wise for the city to shift as rapidly as possible to a pay-as-you-go policy for financing its annual street building program. It is quite as easy to levy a million dollars a year to actually build streets as to levy a million dollars to pay interest and retirements charges on outstanding bonds. Likewise where a city school district has to build one or more school buildings each year to provide facilities for a growing population it is quite as feasible to make a direct tax levy for building purposes as to issue bonds each year and incur mounting interest charges in addition to the principal sum borrowed. The same reasoning applies to the financing of any sort of capital improvement which is not unusual or extraordinary, but which is being provided rather continuously. All this leads to the conclusion that where a local government is called upon to provide a variety of capital improvements and in a rather steady volume it is good financial policy to meet a portion of the burden by direct tax levies.

In fact capital improvement programs should be carefully planned and a mode of financing developed which embraces an economic balance between direct tax levies and borrowing. Failure to make reasonably well thought out plans for public improvements and the practice of indiscriminately financing all projects undertaken by borrowing has led many of our local governments into very distressing financial difficulties. Interest and sinking fund charges grow to huge sums. Increased operating and maintenance costs are entailed by the improvements. At length these charges grow to such proportions that the general operating revenues are encroached upon and the citizens are told that the government cannot do this or cannot do that because debt charges are so high or that services will have to be curtailed unless additional taxes for operating purposes are secured. Thus debt charges like the proverbial thief in the night creep up upon the taxpayer and bind him securely before he is aware of what has been going on. Meanwhile the pressure for additional public improvements continues fostered by various public officials and citizens. The government and taxpayer harassed by high debt



charges are in no mood to cut the Gordian knot by authorizing direct tax levies for capital improvements. Instead additional borrowing is resorted to and the chain of harrowing financial difficulties continues. This sort of process has been typical of many local governments in the state during the last decade or more. It could have been in large measure avoided if these local governments and their citizens had made resolute efforts to finance a reasonable portion of their capital improvements by direct tax levies.

**The Causes of the Prevalence of Borrowing for Financing Capital Improvements.** — Perhaps the most powerful influence in favor of the borrowing policy was the Smith law. The rigid limitations on tax rates with no similarly drastic limit on the incurring of debt combined to induce a strong incentive to finance capital improvements and other expenses by borrowing. In financing a particular improvement by borrowing, the result in immediate taxes levied was very small as compared to that required to finance it by a direct tax levy.

Another general cause of the prevalent practice of borrowing has been the plausibility and popular appeal of the arguments advanced for this policy. Often, however, legitimate arguments have been overplayed or advanced indiscriminately to bring about improvements of dubious worth or which were inopportunately conceived. Again, arguments of a specious character are employed. For example, it is often said that business enterprises having good credit borrow to finance their capital improvements; therefore why should not a public corporation avail itself of its credit in a similar way? The analogy is far from sound. A business enterprise operates for profit and when it borrows for financing capital improvements, anticipates that resultant earnings will justify incurring the debt, and furthermore it assumes that when it so desires it can liquidate the obligation by sale of the properties involved. A public corporation does not operate for profit nor is it a simple matter to calculate the economic return from most public capital improvements. Furthermore, a public corporation does not have the alternative, as a rule, of liquidating its debts by the sale of its capital improvements. In short, the use of public credit should not be governed by the same standards and practices that govern the use of private credit.

It is often urged when public improvements are being advocated that they will "pay for themselves" by the increased land and property values which they will create during the time the indebtedness for them runs. This is not true in all cases it is certain. Often it is a moot question whether an improvement "pays its way" or whether it does not in fact increase the general tax burden. Certain it is that public improvements can be indulged in to a point beyond any economic justification. The danger of approaching such a situation is greatly augmented by a borrowing policy through which a community can unwittingly get itself into such trouble. Such a condition is far less apt to occur when a community judiciously tempers its borrowing policy with at least some direct levies for capital improvements. However, it may be said that an improvement does not necessarily need to "pay for itself" to be a justifiable expenditure. The added convenience and comforts which it provides may be well worth the cost. The question then becomes one of how many of such conveniences and luxuries a community can afford. Existing legislation is based upon the premise that it is good public policy for local officials and local electorates together to have the power to decide what their communities can afford subject to the statutory debt limits which have been set up. Prophecies that proposed improvements will pay for themselves should be carefully weighed. Such advocates, sincere though they may be, can upon occasion lead communities into serious financial difficulties by their sanguinity. Practically all communities desire to grow but an ambitious public improvement program financed with borrowed funds will not of itself guarantee that growth.

**Conclusions and Recommended Legislation.** — The foregoing chapter has traced the growth of the gross indebtedness of local governments for the period 1910-1925. Comparison of the rate of increase of indebtedness, taxes levied and assessed valuation is made for this period. The rate of increase of indebtedness for the several classes of taxing districts is shown as well as the purposes for which debt has been incurred as of the year 1924. Borrowing and pay-as-you-go methods of financing public improvements are discussed and comment is made upon the causes of the prevalence of borrowing.

A general appraisal of the rapidity of growth, amount and character of the indebtedness of local governments leads your Committee to certain conclusions and recommendations.

Not only does your Committee endorse the restrictions upon the use of public credit which have been enacted during the past several years but it recommends a further extension of the principle of debt limitations, particularly in the limitation of the issue of bonds without vote of the people. The growth of the public debt as compared to population growth, the growth of the tax base, social income and wealth in general as well as the growing proportion of tax levies for debt service in many jurisdictions indicates a necessity for the further restriction of the use of public credit on the part of local governments.

The "Krueger Act" passed in 1925 fixed a more stringent debt limit for municipalities. Net indebtedness incurred *without* a vote of the people is not to exceed 1% of the assessed valuation, and where this limit was in fact exceeded at the time of the passage of the act, new indebtedness incurred without a vote of the people is to be restricted annually to 9/10ths of the amount by which the net indebtedness created without a vote of the people is reduced each year. The total net indebtedness limit for bonds issued both with a vote of the people and without a vote is fixed at 5% of the assessed valuation which per cent is the same as the previous statute provided. The effect of the new limit is to reduce materially the debt incurring power of municipal legislative bodies. No changes in these debt limits for municipalities are suggested.

School Districts—The present debt limit for school districts without a vote of the people is based upon the amount of tax levies available within certain limitations. The law prescribes a total limitation of six (6%) per cent of the assessed valuation for all net indebtedness, but it is provided that total net indebtedness shall not exceed four (4%) per cent of the assessed valuation unless with the consent of the state tax commission. It is recommended that net indebtedness incurred by vote of the people be reduced to a flat four (4%) per cent, and the jurisdiction of the tax commission which has not been effectively exercised be terminated. It is further recommended

that the net indebtedness incurred without vote of the people be limited to one-tenth of one ( $1/10\%$ ) per cent of the assessed valuation of the district in lieu of the present complicated limitation. It is practically unnecessary for school districts to issue bonds without vote of the people.

Counties — There are at present no limitations upon the increase of debt by counties for purposes other than roads except that a vote of the people is required in practically all instances where substantial amounts are involved. In the construction of roads, however, the county commissioners have a free hand without vote of the people being limited by the size of certain tax levies within and without the limitations against which bonds are issued. It is very difficult to compare this method of issuing bonds with the customary form of limitation on net indebtedness, and we recommend that a new limitation be written on net indebtedness. It is further recommended that the construction of roads by bond issue without vote of the people be practically terminated. Much may be said for a policy of requiring all roads to be constructed out of tax levies, but at the present time we do not think this is wise. It is felt, however, that the people should first approve the undertaking of extensive borrowing for road construction. In order that road construction may not be prevented by local prejudice, however, it is recommended that the county commissioners be authorized to submit to the people a complete road program covering different parts of the county for approval in a single vote instead of requiring each project to be voted on separately. It is recommended that the following net indebtedness limits be set up for counties including roads and all other purposes: (a) the net indebtedness incurred without a vote of the people shall not exceed an amount equal to one-tenth of one ( $1/10\%$ ) per cent of the assessed valuation. In applying this limitation bonds previously issued for highway purposes are not to be considered. (b) the total net indebtedness shall not exceed three ( $3\%$ ) per cent of the first one hundred million (\$100,000,000) dollars plus one and one-half ( $1\frac{1}{2}\%$ ) per cent of the amount of the assessed valuation over one hundred million (\$100,000,000) dollars.

Townships — It is recommended that the power of the county commissioners to levy township taxes for the construction



of state and county roads be terminated. This tax is practically an assessment without benefitting many of the persons who pay the tax, and is largely responsible for the bitter complaints against road taxes now current throughout the state. If townships are retained, it is recommended that the net debt be limited to two (2%) per cent of the assessed valuation and no indebtedness incurred unless authorized by a vote of the people.

It is recommended that Section 1259 giving the state department of health power to order the issue of bonds outside of debt limitations be repealed. Such a power is absolutely inconsistent with the whole theory of tax and debt limitations and so long as it exists, it is very difficult to work out a consistent system. The special session of the legislature required to meet the condition in Allen County was due principally to the large amount of bonds issued under this section.

In cases where the debt limitations here prescribed are in fact exceeded at the time the act becomes effective, subdivisions should be authorized so long as such excess exists to issue in any calendar year bonds falling within the class covered by said limitation in an amount equal to a sum not exceeding nine-tenths (9/10) of the amount by which the net indebtedness on bonds of such class has been reduced during the said calendar year.

A bill has been prepared embodying these recommended limitations. It is recognized that practically any debt limitation which is to apply in a uniform manner to a large number of political subdivisions may be more or less arbitrary. The outside limits, however, are liberal. One (1%) per cent of debt will require annually anywhere from one to one and one-half mills of interest and retirement levies depending on the term of the bonds; a five (5%) per cent limitation on municipalities may mean seven and one-half mills of debt levies; a four (4%) per cent limitation on school districts may mean as much as six mills of debt levies; and a three (3%) per cent limitation on the county may require four and one-half mills of debt levies. It is felt that it is right in principle for the legislature to say to the people of a subdivision that they shall not have power to impose on those who come after them tax levies in excess of the very liberal amounts named even if a majority of the people now voting desire to impose that debt on their descendants. The policy of debt limi-

tation is much sounder than that of tax limitation, and in the opinion of the Committee far more important.

Of course in many cases the amount of debt should be much smaller. The legislature cannot by law create good judgment and wisdom in public officials and each community must look for such judgment and wisdom to the officers which it has chosen to conduct its government.

#### *A Codification Bill*

The bond law containing the new debt limitations constitutes also a codification of the laws relating to the issuing of bonds by local governments. Such a codification is very desirable. At present the procedure for incurring debt is different for every local subdivision and in many cases different for every purpose for which bonds may be issued. Bond laws are scattered throughout the entire code, and it is impossible to determine the total amount of bonds that may be issued. The bill prescribes a uniform and simple procedure for the authorization, issue and sale of municipal bonds, and repeals probably three times as many sections as it enacts. It incorporates in its provisions all of the bond laws passed in recent years, including the Griswold Act and the Krueger Act.



## SECTION II

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### CHAPTER V THE STATE REVENUE SYSTEM

### CHAPTER VI THE FINANCIAL OUTLOOK FOR THE STATE GOVERNMENT, BUDGET AND APPROPRIATION PRACTICE

### CHAPTER VII A FINANCIAL PROGRAM FOR THE STATE





## CHAPTER V

### The State Revenue System

#### General Statement

It is intended in this section of the report to present a brief description of the revenue system of the State of Ohio. Most people are familiar with the fact that the State of Ohio does not derive an appreciable amount of revenue from the general property tax but is dependent upon various special taxes for the major portion of its revenue. In the following paragraphs the various sources of revenue to the state are described with a brief statement setting forth the special and limited purposes for which the revenues from a number of sources are used.

**State Funds.** — In order to present information from which some perspective on the state financial system can be obtained it is necessary to describe in a summarized manner the system of "funds" established for the administration of state finances.

*The General Revenue Fund.* — The largest and most important state fund is generally characterized as the "General Revenue Fund". All revenue coming to the State of Ohio from any source and not designated by law to be specifically used for a particular purpose is credited to the General Revenue Fund. Slightly more than half the state revenues are levied and collected upon this basis. At the same time several million dollars per year of revenue which is legally dedicated to particular purposes is credited to the General Revenue Fund so that in fact this fund is credited not only with all undesignated revenue but also with several millions of dollars of receipts which belong to special funds within the General Revenue Fund.

Prior to 1923 there were in effect two general property tax levies for purposes now supported from the General Revenue Fund. One was to provide money for highway construction and the other to provide the contribution made by the state to weak school districts. At the regular session of the legislature in 1923 these two direct levies were discontinued and since that time

these functions have been carried on by appropriations from the General Revenue Fund. Transfers of cash based upon these appropriations are made to special funds designated as the "Highway Fund" and the "Educational Equalization Fund" but in reality these are subdivisions of the General Revenue Fund.

*Highway Maintenance and Repair Fund.*—For the past several years it has been the policy to set aside certain revenues in a special fund for the maintenance and repair of roads. Prior to the levy of the gasoline tax the state's portion of the proceeds of the automobile registration tax was the chief source of revenue for this purpose. While the rate of taxation for registration has been reduced with a resulting decrease in revenue the resources of this fund are now augmented by the state's portion of the tax imposed upon gasoline.

*World War Compensation Fund.*—In November, 1921, the voters of the state approved an amendment to the constitution enabling the legislature to finance the payment of a bonus to world war veterans by a bond issue of \$25,000,000 and to provide a special tax levy for the interest on the bonds and the retirement of certain annual maturing installments. The proceeds of this levy are credited to the "World War Compensation Fund".

*Institutional Building Fund.*—The legislature provided for a special tax levy of .25 mills for construction, repairs and additions to certain welfare and correctional institutions during the two fiscal years 1921-22 and 1922-23. The levy lapsed at the close of the second year but the fund is still in existence by reason of the fact that some delinquent taxes now being collected in various counties apply to that special levy and accrue to that fund.

*Educational Building Fund.*—A special levy of .125 mills for the construction of buildings at Ohio State, Ohio and Miami Universities was levied by the legislature at the same time and for the same period as the institutional building levy. The proceeds of this special levy formed the basis for a special fund which is still in existence by reason of the present collection of delinquent taxes.

The present active and important state funds are:

1. The General Revenue Fund.
2. The Maintenance and Repair Fund.

3. The World War Compensation Fund. But during the past five year period substantial revenues have been collected and credited to the other funds now inactive or closed.

### **Sources of Revenue of Various State Funds**

In the following paragraphs a brief description of the more important sources of revenue of each of the various state funds is presented.

*The General Revenue Fund.*—As has been explained earlier in this statement all state revenues not designated for particular purposes are credited to the General Revenue Fund. This fund derives revenue from a large number of sources a number of which yield comparatively large amounts and many others of which yield only a few thousand. The following tabulation is a summary of the receipts from various main sources of General Fund Revenues covering five fiscal years ending on June 30, 1926:



TABLE XII

	1922	1923	1924	1925	1926
Crabbe Law Fines.....	\$599,326	\$1,195,634	\$1,495,623	\$1,126,107	\$923,654
Domestic Corporations .....	4,830,907	4,922,425	5,471,235	5,554,601	3,870,653
Foreign Corporations .....	1,030,017	1,164,631	1,069,544	50,391	708,255
Steam Railroads .....	4,373,853	3,434,544	4,216,330	3,941,383	3,500,893
Electric Railroads .....	1,035,159	841,925	878,786	864,674	875,661
Sleeping Car and Freight Line Equipment..	118,758	109,956	132,844	140,627	132,625
Pipe Lines .....	48,425	46,205	44,872	48,462	66,763
Express and Telegraph.....	102,162	86,632	93,595	85,785	80,993
Miscellaneous Utilities .....	1,638,136	1,701,407	1,995,085	2,288,092	2,296,913
Insurance Companies .....	3,405,638	3,582,546	3,758,163	4,207,837	4,402,605
Assessments —					
Banks, Building & Loans, Securities,					
Public Utilities, Fire Marshal, Etc...					
Inheritance Taxes .....	924,773	1,121,513	1,095,767	1,077,255	1,151,843
Cigarette Tax .....	1,510,973	1,357,236	1,348,611	1,511,287	2,099,253
Depository Interest .....	584,885	579,238	605,673	609,475	641,590
New Incorporations .....	772,775	1,084,637	1,254,959	1,093,213	746,011
Universities and Colleges.....	832,259	1,751,195	737,563	744,510	977,878
Federal Aid —	1,116,613	1,283,141	1,458,046	1,618,765	1,822,408
Education and Health.....	629,792	689,531	712,243	768,086	786,289
Support of Inmates —					
State Institutions .....	1,130,945	1,126,711	1,361,106	1,454,955	1,846,164
Hunting and Fishing Licenses.....	365,732	364,194	405,957	407,802	491,529
Miscellaneous Licenses .....	198,787	203,960	196,322	243,736	251,717
State Fair Receipts.....	133,689	159,540	186,984	192,677	183,121
Caral Rents .....	116,255	146,417	237,213	252,282	255,717
Miscellaneous Sales .....	1,304,122	1,321,742	1,246,979	1,419,519	1,394,121
Manufacturing and Sales Rotaries.....	1,035,280	1,094,172	1,085,045	1,396,499	1,598,623
Unclaimed Bank Deposits.....	.....	.....	.....	22,289	.....
Total .....	\$27,919,261	\$29,266,481	\$31,088,145	\$31,120,309	\$31,105,279

While it is not considered advisable to set forth a detailed description of all the sources of revenue of this fund it is believed that a brief description of the various sources and classes of revenue set forth in the above tabulation will convey to the reader a rather complete idea of the main sources of the General Revenue Fund.

*Crabbe Law Fines.*—The receipts from this source represent the state's portion of fines and forfeitures levied and collected within the various subdivisions of the state from violation of the State Prohibition Laws.

*Domestic Corporations — Franchise Tax.*—This source of revenue represents a franchise tax levied upon domestic corporations for the privilege of doing business in the State of Ohio and prior to the last session of the legislature the rate of this tax was  $\frac{3}{20}$  of 1% on the stock of domestic corporations, but during the last session of the legislature the rate was changed to  $\frac{1}{12}$  of 1% of the fair value on an asset basis of the capital stock with a minimum charge of \$15.00 as a fee for exercising a franchise and doing business in the state. This tax does not apply to public utilities, insurance, building and loan, bond investment and other companies required by law to file a report with the Superintendent of Insurance.

*Foreign Corporations.*—Since the last session of the legislature the franchise tax on foreign corporations was levied at the same rate as domestic corporations and is based upon the capital used and business done in the state by the foreign corporation.

*Steam Railroads.*—This source of revenue represents a tax of 4% of the gross earnings of railroads from intrastate business within the State of Ohio.

*Electric Railroads.*—Under section 5484 of the Ohio General Code an excise tax of 1.2% of the gross earnings of electric railroads from intrastate business is levied for the privilege of doing business in the state.

*Sleeping Car and Freight Line Equipment.*—Under section 5468 of the Ohio General Code an excise tax of 1.2% of the value of the capital stock represented by the capital and property owned and used in the state by each such company is levied annually.

*Pipe Line Companies.*—The State of Ohio levies an annual tax of 4% of the gross receipts from intrastate business on each pipe line company doing business in the state with a minimum fee of \$10.00 per year.

*Express and Telegraph Companies.*—Under section 5485 of the Ohio General Code an annual tax of 2% of the gross receipts of express and telegraph companies from intrastate business is levied annually with a minimum tax of \$10.00 for each such company.

*Miscellaneous Utilities.*—The State of Ohio levied an annual excise tax of 1.2% of the gross receipts derived from intrastate business upon the following utility companies:

- Natural Gas Companies
- Water Work Companies
- Water Transportation Companies
- Electric Light Companies
- Messenger and Signal Companies
- Union Depot Companies
- Heating and Cooling Equipment Companies
- Telephone Companies
- Artificial Gas Companies

*Insurance Companies.*—The General Revenue Fund is credited with a large amount of money collected each year in the form of taxes upon insurance companies. These taxes are derived in a large part from an annual fee of 2.5% of the gross premiums on risks within the state and from fees collected by the superintendent of insurance as provided in section 657 of the General Code of Ohio.

*Assessments — Banks, Building and Loans, Securities, Public Utilities, Fire Marshal, etc.*—The revenue derived from this group of sources represents the cost of supervision by the state for the protection of the public, which is charged to the companies and the concerns.

*Inheritance Taxes.*—The revenue from this source represents the state's portion of taxes levied upon inheritances.

*Cigarette Tax.*—This source of revenue is the state's portion of money derived from licensing of cigarette dealers throughout the state.

*Depository Interest.*—The State of Ohio has at all times large amounts of cash on deposit in the banks upon which interest is paid and which represents a substantial source of revenue.

*New Incorporations.*—The corporate grant of the state provides for certain fees to be paid to the state in connection with the incorporation of new companies and these fees and charges represent the revenue from this source.

*Universities and Colleges.*—The various state educational institutions derive a certain amount of revenue by reason of fees and charges to students, and also by reason of the administration of certain functions by the educational institutions upon a self-supporting or cost basis. Most of the money derived from this source is automatically placed at the disposal of the educational institutions by legislative appropriation.

*Federal Aid.*—The federal government makes certain contributions to the state government for the promotion of various lines of education and health, which contributions are shown as a source of revenue to the state. The money must be expended for the particular purposes designated by the federal authorities.

*Support of Inmates in State Institutions.*—While the State of Ohio maintains a large number of welfare and charitable institutions, to a large extent the cost of maintaining patients and inmates within these institutions is charged back to the various subdivisions of the state from which the patients or inmates are sent to the state institutions. Provision is also made for the support in state institutions of a large number of patients and inmates by their relatives or other interested parties which represents a reimbursement to the state.

*Hunters' Licenses.*—This source of revenue represents the receipts from licenses required to be obtained for the privilege of hunting, fishing, etc., within the state.

*Miscellaneous Licenses.*—The state collects a considerable number of license fees from a large number of small sources and it is these miscellaneous fees which make up this item.

*State Fair Receipts.*—Each year the State of Ohio has a state fair and in connection therewith a considerable amount of revenue accrues to the state from various charges, admission fees, etc.



*Canal Rents.*—Under supervision of the department of public works the state leases canal property from which a substantial revenue is derived.

*Miscellaneous Sources.*—The state derives a considerable amount of cash revenue from certain centralized units which furnish supplies, papers, etc., to the various divisions and departments of the state government upon a cost basis. These receipts together with receipts from the sale of miscellaneous materials for which the state has no further use constitute the receipts from this source.

*Manufacturing and Sales Rotaries.*—There are certain rotary funds in connection with some of the penal institutions of the state which are used to finance the cost of manufacturing bricks and other articles by prison labor and the receipts from the sale of these manufactured articles, which belong to special rotary funds, are credited to the General Revenue Fund making up a portion of its total receipts.

### **Revenues of All State Funds**

While it is generally understood that the larger portion of the revenue accruing to the State of Ohio is credited to the general fund it will be observed that the state collects substantial amounts for special purposes, which amounts are credited to the various special funds of the state. The following tabulation sets forth in a summarized form the entire state receipts for all of its main funds during the five year period ending on June 30, 1926.

TABLE XIII  
STATE REVENUES BY YEARS

	1922	1923	1924	1925	1926
General Revenue Fund.....	\$29,919,261 00	\$29,266,481 00	\$31,088,145 00	\$31,120,307 46	\$31,105,277 69
Bonus Fund .....	.....	2,588,757 40	4,245,916 40	3,214,229 41	3,123,749 64
Highway Fund .....	9,583,836 29	8,705,495 30	6,346,975 48	2,755,925 35	2,517,721 49
Maintenance and Repair Fund...	3,692,709 17	5,046,113 05	5,803,811 75	7,116,277 37	{ 5,263,487 13
					{ 5,600,401 44
Educational Building Fund.....	656,329 29	1,290,204 71	652,401 72	8,514 51	.....
Institutional Building Fund.....	1,312,525 76	2,578,301 62	1,305,148 89	16,444 86	.....
Educational Equalization Fund..	1,113,054 33	1,662,930 94	782,848 99	10,213 34	.....
Total .....	\$46,277,715 84	\$51,138,284 02	\$50,225,248 23	\$44,241,912 30	\$47,610,637 39

It will be observed that the highest point reached in the volume of state revenue was during the fiscal year ending June 30, 1923, and that while the amount of revenue remains substantially the same during the following year there has been a substantial decline in the last two years. It will be observed at the same time that this decline during the two year period ending June 30, 1926, has been due to the abatement of the four special levies for highway construction purposes, educational building purposes, institutional building purposes and educational equalization purposes. The revenues of the General Revenue Fund have remained practically constant throughout but with the repeal of the highway construction levy and the educational equalization levy, the demands upon the General Revenue Fund have been greatly increased during the last two fiscal years.

The weakness of a system of special funds becomes apparent from an examination of the receipts of these state funds during the last few years. When large amounts of revenue are designated for special purposes the inevitable result is over-financing in some funds and under-financing in others.

## CHAPTER VI

### **The Financial Outlook for the State Government Budget and Appropriation Practice**

Since the close of the last session there has been considerable discussion on the question of state finances. Statements and interviews bearing on the financial condition of the State of Ohio have appeared from time to time. It was felt that the Joint Legislative Committee on Economy and Taxation should cause some studies to be made to determine the approximate financial condition of the State of Ohio in order that the public can be correctly informed on the subject and in order that the Committee can intelligently advise the General Assembly in 1927 upon certain of the financial problems which will need be considered at that time.

**Scope of the Study.** — The financial structure of the State of Ohio follows, with few exceptions, the principle that revenues and expenditures should be consolidated into one main fund. The General Revenue Fund is the consolidated fund to which most of the state revenues are credited and from which practically all expenditures are financed directly or indirectly, except the maintenance and repair of highways. The proceeds of the automobile license and gasoline taxes are placed to the credit of the maintenance and repair fund and used exclusively for the upkeep of roads and the administration of these tax laws.

Two funds appear on the records as separate funds but they are in reality subdivisions of the General Revenue Fund. These are the Highway Fund and the Educational Equalization Fund. Highway construction is financed from the Highway Fund and except for a contribution of Federal Aid for this purpose, this fund is now financed by an appropriation and transfer of cash from the General Revenue Fund. The Educational Equalization Fund finances the state aid granted to weak school districts and is supported entirely by a General Revenue Fund appropriation. This being the situation, the Highway Fund and the Educational



Equalization Fund must be considered along with the General Revenue Fund and this study is confined to a consideration of the condition of the General Revenue Fund and these two dependent funds.

**The Method of Making Appropriations.** — Preliminary to a statement upon the financial condition of the General Revenue Fund it is considered advisable to present a brief description of the method employed by the General Assembly in making appropriations. It is the practice to appropriate a maximum amount for current expenses of the government for the first fiscal year of the biennium. Any unexpended balances of the current expense appropriations for the first year are cumulated with specific appropriations for current expense for the second year. In other words, current expense appropriations for the first year do not lapse at the close of the year if unexpended but are added to the appropriation made for the second year. The effect of this system is that a certain sum is appropriated for the biennium for current expense with a limitation upon the amount which can be used during the first year.

Most of the capital outlay requirements of the state during this biennium are to be financed from the General Revenue Fund and in making these appropriations the General Assembly has appropriated specific sums for specific purposes without restriction as to the time within the current biennium when any portion of any such appropriations may be spent.

During the last few years the practice has developed of authorizing the expenditure of all receipts from certain activities in the furtherance of those activities in addition to the specific appropriations made for those purposes. This is accomplished by appropriating these receipts in blank, without an estimate of the amount, for the conduct of the activity from which they are received. For example, the General Assembly at its last session appropriated \$7,564,864.00 for Ohio State University in specific amounts for definite purposes, and in addition to this amount, appropriated in total, without an estimate of the amount, practically the entire revenues and receipts to be received by the state during the biennium from various activities of the University. The revenues and receipts from all sources, appropriated in blank without an estimate, for all purposes during the fiscal year ending

June 30th, 1925, amounted to approximately \$5,937,000.00 and will probably be even more during the two years of the current biennium.

The receipts and revenues thus appropriated are composed of the receipts of various rotary funds, reimbursements from various sources, contributions from the Federal Government, educational institution revenues, etc. In view of the extensiveness of this practice it is important to bear in mind at all times that the appropriations of specific amounts appearing in the general appropriation bill, or in other appropriation acts, do not represent total appropriations from the General Revenue Fund by some five and a half to six millions of dollars per year. To state the same proposition in a different manner it is important to understand and remember that not all the General Revenue Fund receipts are available to finance the specific appropriations made from this fund by the General Assembly.

**The Governor's Budget.** — Under section 154, sub sections 33-34 of the Ohio General Code, the Governor of the State is charged with the responsibility of submitting to the General Assembly at its regular session, a budget covering the proposed expenditures for the ensuing biennium. In accordance with this requirement the Governor submitted a budget to the last General Assembly in which it was estimated that the resources, made up of available cash balance and revenues for the biennium, would amount to approximately \$65,000,000.00. The following table presents a summary of the appropriations recommended by the Governor.

### SUMMARY OF GOVERNOR'S BUDGET

#### APPROPRIATIONS RECOMMENDED BY THE GOVERNOR FOR

Fund	Current Expense		Capital Outlay Biennium	Total
	1925—1926	1926—1927		
General Revenue Fund...	\$22,206,376.50	\$22,019,588.91	\$18,987,115.80	\$68,213,081.21
Special Funds:				
(1) Fish and Game..	294,300.00	294,300.00	12,000.00	600,600.00
(2) Auto Registration	287,587.50	287,587.50	3,000.00	578,175.00
(3) Motor Bus Regulation .....	36,645.00	36,645.00	.....	78,290.00
*Grand Total.....	\$22,824,909.00	\$22,638,121.41	\$19,002,115.80	\$64,465,146.21

\* Does not include appropriations recommended for Highway Maintenance and Repair amounting to \$5,500,000.00 in 1925 and 1926 and \$6,000,000.00 in 1926 and 1927.

It will be observed that in the above tabulation the appropriations recommended from the General Revenue Fund as such, are set forth separately from other recommended appropriations. The receipts from hunting and fishing licenses are credited to the General Revenue Fund but under the law are available only for fish and game appropriations and promotion purposes. Consequently, in effect, the revenues from this source constitute, strictly speaking, a special fund and are treated as such in this statement.

Appropriations for the registration of automobiles and motor bus regulation are financed from the proceeds of these special taxes and consequently are not strictly speaking, within the General Revenue Fund.

It will be observed then, that the appropriations recommended by the Governor from the General Revenue Fund amounted to \$63,213,081.21, of which \$22,206,376.50 was recommended for current expenses during the fiscal year 1925-26, \$22,019,588.91 was recommended for current expenses during the fiscal year 1926-27, and the sum of \$18,987,115.80 was recommended for capital outlay during the biennium, — these amounts to be financed from General Revenue Fund resources.

In submitting an estimate of the resources the Governor calculated this amount at \$65,000,000.00 without making any detailed estimate of receipts from the various sources of revenue, or showing separately any estimate of the unencumbered cash balance as of the beginning of the biennium to which this amount applied. Considering the receipts from hunting and fishing licenses as accruing to a special fund, an estimate of the receipts from this source during each year should be deducted from the \$65,000,000.00 set forth by the Governor, leaving an estimate of resources of approximately \$64,200,000.00.

#### **Auditor's Letter to the Finance Committee of the Senate.**

— The chairman of the Finance Committee of the Senate made a request to the Auditor of State for an estimate of the resources which would be available during the biennium, and complying with that request, the Auditor of State under date of February 16, 1925, wrote a letter to the chairman of the Finance Committee of the Senate, setting forth an analysis of the budget sub-

mitted by the Governor on the basis of an estimate of resources made by the Auditor at that time. A copy of the letter follows:

February 16th, 1925.

HON. HARRY M. CARPENTER,  
*Chairman Finance Committee,*  
*Ohio Senate,*  
*Eighty-sixth General Assembly,*  
*Columbus, Ohio.*

DEAR SIR:

Complying with your request for estimate of revenues for the biennium July 1, 1925 to June 30, 1927, which, together with available balances must finance the appropriations for the operation and maintenance of the state government including "Additions and Betterments" for said biennium, the following statement marked Exhibit "B" is submitted. This statement is a continuation of a previous statement submitted under date March 12, 1924, in response to request of the Governor, in that the departmental operations have been brought up to date, February 12, 1925.

The only change made in the forecast of March 12, 1924, (Exhibit "A") is occasioned by a decision of the Federal Courts entailing a loss in foreign corporation fees of slightly over \$1,000,000.00 and the passage of House Bill No. 66 making supplemental appropriations from the General Revenue Fund for the remainder of the present fiscal year, amounting in the aggregate to \$1,738,761.30. Any further supplemental appropriations, including the Sundry Claims Bill, will deplete the balance in said fund available for financing the next biennium.

Merging the two statements: As to *RESOURCES* we have

Balance available for appropriation for biennium 1925-27.	\$4,459,857 65
Estimated net receipts, not including rotaries and appropriated receipts .....	53,650,000 00

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Total .....	\$58,109,857 65
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To which should be added the revenues accruing from the Automobile Registration Department, estimated at..	12,000,000 00
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Making total available for appropriation.....	\$70,109,857 65
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Summarizing the *EXPENDITURE* side of the budget, as submitted by the Governor, which does not include Rotaries, it carries totals as follows:

For Personal Service and Maintenance, first year.....	\$29,324,908 80
For Personal Service and Maintenance, second year.....	28,639,121 41

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Making a total of.....	\$56,964,030 21
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Which deducted from available resources given above, leaves \$13,145,-827.44 to finance the State's proportion of highway construction and all other Additions and Betterments.

The budget carries an aggregate of \$19,002,115.80 for Additions and Betterments. Therefore it would seem that said budget now before you is not upon a sound financial basis (in other words, *not a balanced budget*, wherein the receipts and expenditures are equal) as it would create a deficit in the General Revenue Fund of the difference between the last two mentioned accounts, to-wit: \$5,856,288.39, if allowed as submitted. Appropriations in excess of resources are not only misleading to the administrative officers but are of no avail to the extent of such excess.

It should also be borne in mind by your Committee that the budget submitted provides only \$2,000,000.00 each year for Weak School Districts, while the appropriations for the present year amount to \$3,377,000.00.

In view of the foregoing I very much regret to advise that additional sources of revenue must be sought and provided unless a further reduction of approximately \$6,000,000.00 is made in the budget expenditures submitted by the Governor.

Respectfully submitted,

(Signed) JOSEPH T. TRACEY,  
*Auditor of State.*

### EXHIBIT "B"

#### FORECAST OF REVENUES AVAILABLE FOR APPROPRIATION UNDER PRESENT LAWS.

Estimate of Unencumbered Balance—June 30th, 1925, General Revenue Fund, per statement furnished the Governor on March 13th, 1924.....		\$8,373,618 95
Deductions by reason of		
Loss of Foreign Corporation Fees..	\$1,000,000 00	
Part of Supplemental Appropriation by the 86th General Assembly, H. B. 66 .....	1,738,761 30	2,738,761 30
Revised Estimate of Unencumbered Balance June 30, 1925		\$5,634,857 65
Deduct Estimated Balance of Rotary Funds not available for general purposes.....		1,175,000 00
Estimated Balance Available for Appropriation for Bien- nium, 1925-1927 .....		\$4,459,857 65
Estimated Receipts Year 1925-1926 .....	\$31,350,000 00	
Estimated Receipts Year 1926-1927.....	32,300,000 00	
		\$63,650,000 00

Deduct Estimated Receipts which departments expend in addition to amounts appropriated at \$5,000,000 per year			\$10,000,000 00	\$53,650,000 00
Total General Revenue Available for Appropriations.				\$58,109,857 65
Add Estimated Receipts from Motor Vehicle License and Motor Bus Law for Biennium.....				12,000,000 00
Total Estimated Funds Available for Appropriations to Be Made by the 86th General Assembly for the Biennium 1925-1927 .....				\$70,109,857 65

Dated February 12, 1925.

It will be observed from an examination of the copy of the above letter that the Auditor estimated the total resources for the biennium available for financing General Revenue Fund appropriations at \$58,109,857.65 which was some \$6,090,000.00 lower than the estimate of resources available for General Revenue Fund purposes made by the Governor in his budget.

**Appropriations made by the General Assembly Payable from the Resources of the Biennium.** — The legislature had before it, at the time the appropriation acts were under consideration, two widely varying estimates of available resources, the higher one having been submitted by the Governor and the lower one by the Auditor of State. Following is a tabulation showing the appropriations finally made by the General Assembly payable from the resources of the biennium, commencing July 1, 1925, and ending June 30th, 1927.

# SUMMARY OF APPROPRIATIONS MADE BY THE GENERAL ASSEMBLY

PAYABLE FROM THE RESOURCES OF THE BIENNIUM  
1925-26 AND 1926-7.

Fund	CURRENT EXPENSE		Capital Outlay Biennium	Total
	1925-1926	1926-1927		
<i>General Revenue Fund</i>				
Regular Appropriation Act .....	\$23,922,066.80	\$23,335,008.91	\$17,639,339.50	\$64,896,415.21
Sundry claims.....	132,687.73	.....	.....	132,687.73
Lorain Relief — unexpended June 30, 1925	11,707.11	.....	.....	11,707.11
Reappropriations — Unexpended June 30, 1925 .....	.....	.....	619,442.51	619,442.51
Total General Revenue Fund.....	\$24,066,461.64	\$23,335,008.91	\$18,258,782.01	\$65,660,252.56
<i>Special Funds</i>				
Fish and Game.....	\$293,600.00	\$293,600.00	\$102,000.00	\$689,200.00
Auto Registration.....	300,897.50	300,897.50	3,000.00	604,795.00
Motor Bus Regulation..	72,925.00	72,925.00	600.00	146,450.00
Total Special Funds	\$667,422.50	\$667,422.50	\$105,600.00	\$1,440,445.00
Total .....	\$24,733,884.14	\$24,002,431.41	\$18,364,382.01	\$67,100,697.56

These figures do not include appropriations for Maintenance and Repair of Highways.

It will be observed that in the regular appropriation act appropriations of \$64,896,415.21 were made from the General Revenue Fund and appropriations of \$132,687.73 from the General Revenue Fund were made for sundry claims. At the same time the legislature included within the regular appropriation act, reappropriations for certain capital outlay projects amounting to \$1,537,015.06 to be expended during the ensuing biennium to whatever extent these particular appropriations were not used during the earlier period. The unexpended portion of these appropriations on June 30th, 1925, amounted to \$619,442.51 and consequently this portion of these reappropriations became in effect payable from the resources of the biennium commencing July 1, 1925. During the session the legislature made an appropriation of \$95,000.00 for relief of the City of Lorain and this appropriation became available as soon as it became law. On June 30th, 1925, \$11,707.11 of the appropriation had not been expended and consequently this unexpended balance in this appropriation was also payable from the resources of the biennium

commencing July 1, 1925. These items added to the regular appropriation for current expenses and capital outlay made a total of \$65,660,252.56 appropriated from the General Revenue Fund for the current biennium. The total of these appropriations exceeded the appropriations recommended by the Governor by some \$2,447,000.00. They also exceeded the Governor's estimate of resources by \$1,460,000.00 indicating that the General Assembly was guided by the estimate of resources presented by the Governor rather than the one presented by the Auditor.

**Probable Resources.** — It is to be remembered that the estimates of resources presented by the Governor and by the Auditor of State were prepared as of a period several months before the close of the fiscal year ending June 30th, 1925, and at that time it was impossible to determine any effect upon the revenues which might result from legislation to be enacted during the session. It was further necessary at that time to make an estimate of the unencumbered cash balance as of June 30th, 1925. In the following paragraphs an estimate of the probable resources for the biennium is presented which is based on information, unavailable at the time the prior estimates were made.

**Cash Balance.** — The cash balance of the General Revenue Fund as of June 30th, 1925, amounted to \$8,403,587.81. Included within that amount there was cash belonging to various rotary and special funds amounting to approximately \$1,250,888.86, and as of that date there were outstanding and unpaid bills amounting to something in excess of \$1,400,000.00 payable from this cash balance. Deducting these two amounts leaves an unencumbered cash balance of \$5,752,698.95 available for the requirements of the biennium commencing July 1st, 1925.

**Probable Receipts.** — The following table is a statement of the receipts of the General Revenue Fund for the two fiscal years ending June 30th, 1925, and June 30th, 1926, classified by major sources and showing separately the amounts of the receipts each year which are appropriated in blank for each year without an estimate. The table follows.



TABLE XIV  
TABLE SHOWING RECEIPTS OF GENERAL REVENUE  
FUND FOR TWO YEAR PERIOD FROM  
MAJOR SOURCES

Department or Division	Source of Receipts	Receipts	
		1924—25	1925—26
Agricultural .....	License and Analysis.....	\$74,770.15	\$69,920.96
	State Fair Receipts.....	192,676.84	176,139.14
Auditor .....	Crabbe Act Fines.....	1,126,107.14	923,653.68
Commerce .....	Fees—State Bank Examiners.....	141,120.49	137,252.23
Building and Loan.....	½ of 1% of Bldg. and Loan Assets .....	106,605.88	115,953.68
Fire Marshal .....	Restaurant Fees.....	40,302.50	84,184.00
Div. of Insurance.....	Fees—Sec. 657.....	229,233.89	122,833.33
	Fees—2.5% under Sec. 5433... ..	3,967,925.16	4,437,112.60
	Fees—Maintenance Sec. 841... ..	177,441.74	.....
Div. of Securities.....	Fees—Dealers and Agents....	37,062.00	33,558.44
Public Utilities.....	Maintenance .....	172,092.81	206,862.99
Div. Film Censorship....	Censorship Charges.....	41,290.00	44,200.00
Executive .....	U. S. Aid Disabled Soldiers and Sailors Home.....	68,670.00	64,120.00
Highways and Public Works .....	Property Rentals.....	248,843.94	255,651.76
Industrial Relations.....	Boiler and Other Inspections.....	33,401.48	39,101.45
	Engineer Exams.....	54,900.00	54,883.00
Non Departmental.....	Cigarette Tax.....	606,473.25	641,589.63
	Inheritance Tax.....	1,492,200.32	2,094,671.72
	Initial Incorp. Fees.....	743,321.94	966,666.78
	Excise—Sleeping Car and Freight Line.....	140,626.65	132,624.78
	Excise—Natural Gas.....	687,235.58	661,775.02
	Excise—Pipe Lines.....	48,462.32	66,762.64
	Excise—Electric Light.....	1,005,274.60	1,043,078.29
	Excise—Express Companies....	66,948.96	60,852.50
	Excise—Telephone Companies...	489,016.05	532,499.01
	Excise—Electric Railroads....	864,673.89	875,661.25
	Excise—Steam Railroads.....	3,941,383.30	3,500,898.35
	Domestic Corp. Fees—Old Law .....	5,389,492.07	.....
	Domestic Corp. Fees—New Law .....	.....	3,719,920.80
	Foreign Corp. Fees—Old Law .....	31,908.70	.....
	Foreign Corp. Fees—New Law .....	.....	701,873.46
	Domestic Corp. Fees Collected by Attorney General.....	165,108.65	150,781.88
	Del. Excise Tax Collected by Attorney General.....	58,381.55	10,928.64
	Depository Interest.....	1,084,154.27	737,515.40
Welfare .....	Maintenance collected by Attorney General.....	120,014.39	31,779.80
Charities .....	Maint. collected by Treasurer.....	729,687.15	900,409.51
Cleveland State Hospital.....	Maint. collected by Treasurer.....	31,088.54	23,823.80
Institution for Feeble Minded .....	Maint. collected by Atty. Gen.....	57,954.94	360,610.04
Ohio State Sanatorium..	Patients' Payments.....	37,129.00	37,342.06
Massillon State Hospital.....	Maint. collected by Treasurer.....	22,862.31	30,017.79
Other Revenue.....	Small sources.....	657,895.82	661,682.79
Total available for specific appropriations.....		\$25,182,687.27	\$24,657,732.76
Receipts appropriated without estimates.....		5,937,620.19	6,447,544.93
Total Receipts .....		\$31,120,307.46	\$31,105,277.69

It will be observed from an examination of the above table that while the total receipts for the two years are approximately the same, there is a substantial increase in 1925-26 in the amount of automatically appropriated receipts over the previous year and a corresponding decrease in the receipts available to finance specific appropriations made by the legislature. The amount of cash received during the year ending June 30th, 1926, available for financing specific appropriations was \$24,657,732.76 as against \$25,182,687.27 during the previous fiscal year. There is no reason for expecting that these receipts will increase during the current fiscal year. It would appear then that the resources of the biennium available to finance specific appropriations will amount to approximately \$55,085,000.00 and will be made up as follows:

Cash Balance June 30th, 1925.....		\$8,403,587 81
Less —		
Cash of Rotary and Special Funds..	\$1,250,888 86	
Estimated Unpaid Bills.....	1,400,000 00	2,650,888 86
<hr/>		
Available Cash Balance June 30th, 1925.....		\$5,752,698 95
Probable Receipts Excluding Those Appropriated in Blank.		
1925-1926—Actual .....		\$24,657,732 76
1926-1927—Estimated .....		24,675,000 00
<hr/>		
Total Probable Resources.....		\$55,085,431 71

**Relations of Probable Resources to Appropriations.** — It is important to bear in mind at all times that an appropriation does not represent cash but is merely an authorization to incur obligations up to a certain amount. The obligations arising from expenditures made pursuant to appropriations are paid from the available cash insofar as the supply of cash is available. Appropriations in no way affect the supply of cash but the supply of cash should determine the extent of the appropriations. However, such is not the case with the State of Ohio during the current biennium. The total appropriations made by the General Assembly for the present biennium and payable from the General Revenue Fund amount to \$65,660,252.56 as against probable resources of \$55,085,000.00. This means that the appropriations are not financed by approximately \$10,575,000.00.

It will be remembered that the appropriations recommended by the Governor amounted to \$63,213,000.00 and had the legisla-

ture confined its appropriations to this amount even then appropriations would not have been financed by some \$8,138,000.00. The estimate of resources made by the Governor was placed at \$65,000,000.00 from which should be deducted approximately \$800,000.00, the probable receipts of the Fish and Game Fund, leaving \$64,200,000.00. No details indicating how this estimate was arrived at were given in the proposed budget, but it would seem that the Governor's budget was based upon an over-estimate of resources in the neighborhood of \$9,115,000.00.

**Financial Outlook for Year Ending June 30th, 1927.** — In the following paragraphs some observations on the financial outlook for the year ending June 30th, 1927, are set forth.

The cash balance of the General Revenue Fund was \$2,467,367.98 on June 30th, 1926. Included within this amount there was \$1,779,555.25 belonging to various special and rotary funds and appropriated to particular purposes. Deducting this amount from the balance left \$687,812.73. While it is difficult to determine the outstanding unpaid obligations at any particular time it is assumed that at all times these outstanding obligations are in excess of \$1,200,000.00. Assuming that the outstanding obligations at that time amounted to \$1,200,000.00 it would follow that there was a deficit of approximately \$500,000.00 at the close of the fiscal year which must be carried over against the receipts of the year ending June 30th, 1927. For reasons set forth earlier it cannot be expected that the receipts for financing specific appropriations during the current fiscal year will exceed \$24,675,000.00. Assuming that this amount was already encumbered to the extent of \$500,000.00 at the start of the fiscal year it follows that the incurrence of obligations in excess of \$24,175,000.00 chargeable to the specific appropriations made by the legislature will result in an actual deficit on June 30th, 1927, to whatever extent obligations incurred during the year exceed this amount.

On June 30th, 1926, the undisbursed balances of appropriations to be carried over into the year ending June 30th, 1927, were as follows:

Current Expense .....	\$2,710,273 44
Capital Outlay .....	8,720,220 04
Rotary and Special Funds.....	1,779,555 25
<hr/>	
Total .....	\$13,210,048 73
Less Estimated Outstanding Obligations.....	1,200,000 00
<hr/>	
	\$12,010,048 73

Assuming that on June 30th, 1926, there were \$1,200,000.00 of outstanding obligations as yet uncharged to appropriations it will be observed that the unused balances of appropriations carried over into the current year are approximately \$12,010,048.73. The legislature appropriated the sum of \$7,545,290.70 to be transferred to the Highway Fund during the biennium and on June 30th, 1926, \$3,511,920.70 of this amount had been so transferred leaving an appropriation balance of \$4,033,370.00 to be provided for the Highway Fund in the current year.

The appropriations for current expense which became effective on July 1st, 1926, amounted to \$23,064,073.35 which must likewise be financed from the receipts of the current year. The situation existing during the current year is that the following appropriations payable from the General Revenue Fund are in effect:

1. Current Expense Appropriations Carried Over.....	\$2,710,273 44
2. Rotary and Special Funds—Unused Balances Carried Over .....	1,779,555 25
3. Capital Outlay Excluding Highway Purposes.....	8,720,220 04
4. Highway Fund Appropriations Untransferred on June 30th .....	4,083,370 00
5. Current Expense Appropriations for Second Year...	23,064,073 35
<hr/>	
Total .....	\$40,307,492 08
Less Estimated Uncharged Outstanding Obligations..	1,200,000 00
<hr/>	
	\$39,107,492 08

The situation existing at the beginning of the current fiscal year is that the outstanding appropriations or authorizations to incur obligations amount to approximately \$39,000,000.00 while the probable amount of cash which will be available to pay whatever obligations are incurred will be in the neighborhood of \$24,500,000.00.



Obviously it will be out of the question for the state to incur obligations in an amount any ways near \$39,000,000.00. At the same time drastic curtailment all along the line will be required to confine expenditures to an amount in the neighborhood of \$24,500,000.00.

As a practical proposition the unused balances of all special and rotary funds tend to represent over-financing of these special purposes and no great harm can result from the use of these balances for other purposes, although there is no authority to use this cash for other purposes.

Assuming that the current expense of the state can be confined to \$22,000,000.00 during the current year and assuming that the legislature will approve the use of rotary and special fund balances then it follows that the state can expend approximately \$4,000,000.00 for capital purposes including Highway Fund transfers and finish the year with little or no deficit. A policy of extremely drastic curtailment in both current and capital expenditures must be inaugurated at once however, if the state is to finish the year without a substantial deficit carried over in the form of unpaid bills.

**The Supply of Cash.** — While the real financial condition of the General Revenue Fund depends fundamentally upon the relation of obligations incurred to resources within a particular period, there is at the same time an incidental problem of financing. By this is meant the provision of sufficient cash at all times to meet obligations when they mature. Assuming that expenditures for the current biennium do not exceed resources, there will be a scarcity of General Revenue Fund cash during July, August and September of each year under the present revenue system and the time of making certain expenditures will need to be closely regulated to avoid the entire exhaustion of General Revenue Fund cash. This situation arises from the fact that under the present arrangement, the collection of revenue is heavily concentrated into a short period of time with little or no relation to the heavy demand for seasonal expenditures.

The following tabulation shows the collection of General Revenue Fund cash by months during the year ending June 30th, 1925, from all sources yielding in excess of \$25,000.00 per year.

<i>Month</i>	TABLE XV	<i>Cash Collected</i>
July .....		\$1,137,089 97
August .....		1,285,909 68
September .....		5,314,565 94
October .....		3,226,149 10
November .....		4,071,723 08
December .....		8,318,588 41
January .....		1,139,017 50
February .....		918,924 11
March .....		911,027 79
April .....		1,776,810 73
May .....		1,228,791 45
June .....		915,900 87
* Total .....		<b>\$30,245,498 63</b>

It will be observed that the collections during December are nearly equal to the entire collections of the ensuing eight months. There is an administrative job involved, of regulating expenditures to avoid the complete exhaustion of cash at the low point during the year when the supply of cash becomes comparatively low as it has during the last few months.

The extent to which the supply of cash has become depleted compared to former years, is indicated by the following tabulations showing monthly cash balances of the General Revenue Fund alone, and of the General Revenue Fund and its two subsidiaries — the Highway and Educational Equalization funds.

TABLE XVI  
STATEMENT OF MONTHLY CASH BALANCES  
GENERAL REVENUE FUND

	1923-24	1924-25	1925-26	1926-27
June .....		\$9,107,690 90	\$8,403,587 81	\$2,467,367 98
July .....		8,016,360 49	6,562,297 30	400,739 80
August .....		7,363,030 25	5,635,947 41	22,287 17
Sept. ....		8,897,753 97	5,006,477 30	.....
October ..		8,977,013 86	2,166,492 02	.....
Nov. ....		10,708,860 13	6,387,382 46	.....
Dec. ....	\$22,794,663 84	16,640,184 86	8,609,503 31	.....
Jan. ....	22,383,093 91	15,337,791 30	7,638,848 04	.....
Feb. ....	20,574,603 15	13,995,808 15	6,541,094 19	.....
March ...	19,227,417 42	11,393,928 34	5,764,670 54	.....
April ....	18,440,719 93	10,647,773 16	4,802,122 39	.....
May ....	16,685,281 95	9,689,488 33	3,899,527 97	.....

\* The remaining amount of approximately \$875,000 00 from small sources is distributed rather evenly throughout the year.

TABLE XVII  
COMBINED MONTHLY CASH BALANCES

GENERAL REVENUE FUND, EDUCATIONAL EQUALIZATION FUND AND HIGH-  
WAY FUND.

	1923-24	1924-25	1925-26	1926-27
June .....		\$17,545,870 43	\$10,835,191 40	\$3,923,463 55
July .....		15,518,074 48	8,363,880 73	1,079,971 82
August ...		14,030,257 97	6,806,841 44	*129,056 13
Sept. ....		14,860,728 01	5,589,015 61	.....
October ..		14,723,897 77	3,428,629 83	.....
Nov. ....		15,601,551 88	7,259,800 54	.....
Dec. ....	\$25,598,869 02	20,539,676 33	12,570,198 86	.....
Jan. ....	24,986,018 06	18,989,557 11	11,437,677 56	.....
Feb. ....	23,150,451 89	17,638,580 17	9,204,851 62	.....
March ...	21,613,152 24	15,419,068 25	8,313,806 58	.....
April ....	20,793,066 50	14,476,903 27	7,143,103 29	.....
May ....	18,834,021 98	13,042,891 71	5,792,900 82	.....

Examination of the upper table shows a General Revenue Fund cash balance on June 30th, 1926, of \$2,457,367.98 as against a corresponding balance of \$8,403,587.81 one year prior. It is to be remembered that at all times there is an encumbrance of unpaid bills against this balance, and that it also includes considerable cash belonging to various special and rotary funds.

The above figures indicate that the state has been financing its expenditures during the fiscal year just closed in part from current revenue and in part from a surplus from prior years but the surplus has entirely disappeared and unless there is an immediate and drastic curtailment of expenditures the supply of cash will be exhausted by April or May of 1927, with no means of replenishment for several months thereafter.

**Recommendations as to Budget Procedure for the State of Ohio.** — In the following paragraphs certain recommendations are made bearing upon the preparation of the biennial budget and appropriation act and the methods of making appropriations.

As has been developed in the course of this statement, during the current biennium the state is attempting to operate under an unsound budget — a state of affairs which is not only mis-

\* The overdraft shown as of August 31st, 1926, results from a transfer of \$1,000,000.00 from the Maintenance and Repair Fund to the Highway Fund and on that date the combined balance of these three funds was \$129,056.13 less than the \$1,000,000.00 so borrowed.

leading to the public but likewise confusing to the members of the legislature and administrative officials.

There should be no need for argument on the proposition that the state budget should be balanced for each fiscal period and that appropriations should be kept within the resources for the period to which they apply. It is realized that rules and regulations covering the procedure in the preparation of a budget and appropriation act cannot be made effective substitutes for the exercise of good judgment on the part of all concerned. However, it is believed that a systematic approach to the problem of preparing a balanced budget and completely financed appropriation act will tend to encourage the exercise of good judgment in the handling of state finances, and with this idea in mind certain suggestions are advanced in the following paragraphs, dealing with the steps involved in the preparation of the regular biennial appropriation act.

A somewhat unusual situation confronts the next legislature in the preparation of its next appropriation act by reason of the fact that at the last session the General Assembly committed the state to the proposition of changing the fiscal year so that commencing on January 1, 1929, the state's fiscal year will correspond to the calendar year instead of ending on June 30th, as is the arrangement at present. This will mean that in the preparation of the next appropriation act the legislature will be called upon to enact an appropriation covering an eighteen months' period commencing July 1, 1927, and ending December 31, 1928.

Under present financial arrangements the Governor's budget and the appropriation act must be prepared several months in advance of the commencement of the period to which they apply. Consequently the approximate financial condition of the state as of the beginning of the period to which each budget applies, must be estimated several months in advance. When the change in fiscal period goes into effect as of January 1, 1929, appropriations will be prepared some time after the beginning of the period to which they apply and complete information can be made available upon the financial condition of the state as of the beginning of each biennium.

In view of the fact that the Governor's budget for the eighteen months' period for which the legislature must provide ap-



propriations at its 1927 session will be prepared pursuant to existing statutes prior to the meeting of the General Assembly, only limited changes can be made in the budgetary procedure of the state in dealing with the next fiscal period. Certain suggestions are incorporated herein which can be applied by the legislature at the coming session and other suggestions are presented applicable to budgetary procedure after 1927, which suggestions might well be considered at the coming session of the legislature and formulated by statute into rules covering the subject and to go into effect in connection with the preparation of the budget and appropriation act for the fiscal period 1929-1930.

**Recommendations Applicable to the Preparation of the Next Appropriation Act.** — The following recommendations are presented for consideration in connection with the preparation of the next budget and appropriation act and adopted for permanent practice:

- A. It is suggested that the legislature request detailed estimates of the probable revenues from every source accruing to each state fund from the Governor and also from the Auditor of State. These estimates can be checked against each other and differences of opinion can be reconciled by calling in the various officials concerned, thereby enabling the members of the appropriate committees to arrive at a reasonably sound estimate of what the probable resources of the state will be in the period provided for in the appropriation.
- B. It is suggested that the efficiency of legislative action in the preparation of the appropriation act could be increased and considerable time and inconvenience could be saved by establishing a policy of having joint sessions of the Senate and House Finance committees and having the same appropriation act reported to both houses. This would obviate the necessity of having public officials appear more than once in connection with the departmental requests and also would facilitate the ironing out of differences of opinion on proposed expenditures earlier in the proceedings.
- C. During the last few years a number of so-called rotary and other special funds within the General Revenue Fund have been established. The practice has developed of making appropriations in blank without estimates of the receipts

from various sources in furtherance of the functions which are responsible for the collection of these particular receipts. The cash receipts from the operation of the various functions on a rotary fund basis are automatically appropriated without estimate to the furtherance of each particular function. Contributions received from the federal government likewise are appropriated in blank for the purposes for which they are contributed without any estimates as to their amount. The result is that approximately  $1/5$  or 20% of the cash receipts of the General Revenue Fund are on this basis, which means in the neighborhood of \$6,000,000 each year of cash receipts are appropriated without being estimated and without any definite limitations upon the amounts which may be expended for these purposes. This practice is the outgrowth of the establishment of functions based upon the argument that if established such functions would be self-supporting and consequently in order to measure the extent to which they are self-supporting the receipts derived from these functions have been dedicated to their particular advancement regardless of the extent to which such functions should be developed. It is believed that the theory of this arrangement is unsound and that the underlying principle in making appropriations should be that whatever functions are justifiable in any case should be financed by appropriations to the extent to which such functions should be carried on without reference to the amount of revenue derived from such functions. In other words, all activities of the state government should be supported insofar as they can be justified by definite and specific appropriations and any revenue derived from the conduct of such functions should be placed to the credit of the General Revenue Fund without restriction as to its use. It is believed that most of the existing semi-official funds and rotary funds and appropriations without estimate should be discontinued and abolished and the functions involved placed upon exactly the same basis as all other state functions. It may be desirable to continue the manufacturing and sales, printing and supply rotary funds, but in the event such rotary funds are continued the legislature should provide that any balance in

these funds at the end of each fiscal year should be transferred to the General Revenue Fund and placed at the disposal of the Board of Control for allotment.

These suggestions as to the elimination of this method of making appropriations are advanced not only because it is believed that the practice is unsound tending to the over-development of certain functions but also that as a practical matter the present method of making appropriations has resulted in such complication in the state's finances that few members of the legislature and very few administrative officers understand the present system.

- D. It is suggested that the present practice with respect to appropriations for current expense be changed so that the unencumbered balance of all current expense appropriations will lapse at the end of each fiscal year rather than be carried over from the first year of each biennium into the second as is the present practice.
- E. It is suggested that so far as possible all appropriations except for such sundry claims, require a two-thirds vote, be included in the regular appropriation act.

**Recommendations to Apply in Connection with the Budget for the Fiscal Period 1929 and 1930.** — When the General Assembly meets in 1929 it will need to prepare an appropriation act covering the period from January 1, 1929, to December 31, 1930, a period which will have commenced before the General Assembly meets. It might be well during the 1927 session for the legislature to establish certain requirements in connection with the preparation of a budget by the Governor for the fiscal period commencing January 1, 1929. It is suggested that in the future the Governor be required to include in his budget the following information:

- A. A detailed estimate of the probable cash receipts of each fund from each and every source for each year of the biennium covered by the budget. The Auditor of State should be required to submit an independent estimate of such receipts also.

- B. A detailed comparative report by the Auditor of State of actual receipts of each fund from each and every source for each year of the two bienniums just closed.
- C. A statement of the unencumbered balances on hand in each fund at the beginning of the biennium covered by the budget.
- D. A summary of the estimated balances, receipts and expenditures in each fund and all funds combined for each year of the biennium covered by the budget; also a summary of proposed expenditures by each department and subdivision, distinguishing between current and capital purposes.
- E. When necessary to balance the budget, recommendations for raising additional revenues.

**Immediate Expenditure Curtailment Recommended.** — It is apparent from an examination of the state's finances during the current biennium that the Governor and the legislature are faced with the necessity of developing sources of additional revenue which will increase the annual resources of the General Revenue Fund of the state by several million dollars. It is believed that this task will be extremely difficult even if the present fiscal year is completed without an actual deficit and that in the event there is a substantial deficit at the close of the present fiscal year the task of increasing the revenues to meet future demands and at the same time make up the deficit incurred during the current year will be exceedingly difficult. In view of the fact that unless an immediate and drastic policy of curtailment not only of capital expenditures but likewise of current expenditures is inaugurated, a substantial deficit on June 30th, 1927, will inevitably result. Consequently it is recommended that such a policy of drastic curtailment be put into effect without delay in order that a revenue program designed to meet the future needs of the state can be developed at the 1927 session of the legislature without having the situation further complicated by a substantial deficit at the close of the current fiscal year.



## CHAPTER VII

### A Financial Program for the State

The state government faces an acute financial problem as revealed by the examination of its financial condition made by your Committee. The days of living to a considerable extent upon an accumulated surplus are over. If continuation of the building of capital improvements and of the present activities of the state without diminution or retrenchment is contemplated very substantial additional revenues must be found. If only capital improvements now appropriated for are to be completed and no retrenchments in operating expenses are made, additional revenue will be required. In order to avoid a deficit June 30, 1927, it would appear (1) that capital outlay expenditures for the year 1926-1927 should not exceed \$4,000,000 including highway building, (2) that operating expense chargeable to specific appropriations should be held to a figure approximating \$22,000,000, and (3) that in order to finance total expenditures of \$26,000,000 for the year the legislature will need to authorize the use of all unused balances of special and rotary funds for other general fund purposes.

As developed in the previous chapter the total authorized and unexpended appropriations June 30, 1926, were estimated at about \$39,000,000. Total resources to finance these appropriations were estimated at about \$26,000,000. Upon this basis total appropriations for the last year of the current biennium are unfinanced to the extent of \$13,000,000 or thereabouts. Under this forecast it is apparent that present capital outlay appropriations cannot be financed without substantial increases in revenue and no additional projects can be thought of without still greater revenues being required.

**No General Tax Revision Feasible at Present.** — In viewing the financial problem confronting the state your Committee contemplates no general revision in the revenue system now existing. It does not deem a general revision feasible nor even within the realm of possibility until the constitution is amended

to abolish the uniform rule. As a practical matter no business income tax or personal income tax could be substituted in whole or in part for the present indirect taxes while the uniform rule remains intact.

**The Present Tax Burden on Business and Industry —**

Your Committee made a serious and diligent effort to discover the relative burden of taxation upon the various classes of industry and business within the state. The results of this study are reviewed in another chapter, but they are as yet not adequate to form a basis for a complete revision and equalization of the present excise, franchise and other state taxes.

A superficial study of state taxes would indicate that certain of these are out of proportion to others, e. g., steam railroad and insurance excise taxes as compared to the similar taxes for telephone, light and power companies and as compared to the present corporation franchise tax.

Your Committee recommends that the 87th General Assembly provide for the continuance of the tax burden study so that it may have a broader knowledge of the relative tax burden on various kinds of business and industry upon which to base a general equalization. Despite its incompleteness a great deal of valuable information has been collected and tabulated, but because of the difficulties encountered and the need for more time the study has not been carried to a point where its full usefulness can be realized.

**The Immediate Problem.** — Immediate pressing is the condition of the state treasury. It is not within the scope of the powers of this Committee to determine upon a detailed financial policy for the state for the next biennium. The law imposes on the Governor the duty of preparing and recommending a budget for the period from July 1, 1927, to January 1, 1929. It imposes upon the legislature the consideration of that budget and the adoption of a revenue and expenditure policy.

Your Committee desires to point out, however, the problem with which the Governor and the legislature are presented. During the past two years the state has been expending between seven million and eight million dollars more than the current revenues for this period. Under existing laws no material increase in revenues can be anticipated and the treasury surplus previously

existing is exhausted. In fact, unless the executive departments reduce the expense of government there will be a substantial deficit on July 1, 1927. Three alternatives are presented to the state.

1. Reductions in the cost of the current operations of the state government may be obtained by a revision of expenditure plans for the remainder of the biennium. This Committee did not have the funds to undertake any comprehensive examination of the various departments of the state government. In its opinion the securing of further economies in these departments is a matter which is within the discretionary power of the chief executive. By utilizing more fully the provisions of the reorganization code economies in some degree can undoubtedly be secured. So far as is known the executive department has not exercised the powers of combining departments and eliminating personnel given by this code.

Your Committee does not believe, however, that the legislature is in a position to make any great reductions in the budget requests of the various operating departments or to pass upon the question of whether there is duplication of effort among the departments or whether they are employing three clerks here and there where two might do the work. The legislature will practically be in a position where it must continue the rate of expenditure for current operations much as it is. It may be said in this connection that reliable statistics indicate, generally speaking, that the state government is not operated upon such an extensive scale as are many other states.

It is concluded, therefore, that with the assistance of the Governor it may be possible to cut expenditures somewhat but probably not to an extent which will prevent a deficit at the end of the current biennium.

2. If no new taxes are to be levied at the next session of the legislature it will be necessary to eliminate practically all new capital outlay projects with the possible exception of several million dollars to meet the federal appropriation for roads so that this sum may not be permanently lost to the state. The appropriation for capital outlay during the current biennium amounted to approximately \$19,000,000. In the opinion of your Committee an annual expenditure of nine million dollars for roads and all

other types of permanent improvements is not extravagant but it is, of course, not absolutely essential. As contrasted to a situation where a large treasury surplus existed the desirability of new capital improvements must now be balanced against the disadvantages of levying additional taxes.

3. If the present rate of current expense and permanent improvement expense is to continue it will be necessary to levy additional taxes which will produce substantial additional revenues. Your Committee has, therefore, given serious consideration to how additional revenue might be raised and has certain concrete suggestions to make which are made in the order of their importance.

(a) *The Corporation Franchise Tax* — By reason of the recent repeal of the Federal Capital Stock Tax the present corporation tax law must be amended. This law provides that in determining the base upon which the tax is to be made the value of the capital stock should be that which was fixed under the Federal Capital Stock Tax. A new base in the legal sense must be provided. However, the essential basis of the law, namely, a tax on net worth, is sound.

The Committee offers a bill which follows the general principles of the existing law assessing the tax upon the net worth of the capital stock of the company. (In the case of foreign corporations the tax is to be apportioned according to the proportionate amount of business done and property owned in the state so as to comply with constitutional restrictions laid down by the United States Supreme Court.) For determining the tax base the bill provides:

**"For the purposes of this act, the value of the issued and outstanding shares of stock of any such corporation shall be deemed to be the total value, as shown by the books of the company, of all the assets of the corporation, including all its real and personal property but excluding patents, trade-marks, formulas and good will, remaining after deducting therefrom its total liabilities including reasonable reserves for depreciation, depletion and taxes except its liabilities on account of capital stock, surplus, undivided profits and all other reserves and unrealized losses; provided, however, that the tax commission, in the absence of satisfactory information with respect to such assets and liabilities, may find the value of the issued and outstanding shares of stock of any corporation to be the sum of its capital and surplus, whether earned or unearned, and its undivided profits."**



The proposed plan avoids the necessity of filing a balance sheet by the company but permits a company to do so in support of the value it places upon its capital stock.

The existing law produced during the fiscal year 1925-26, \$3,870,000 from domestic corporations and \$708,000 from foreign corporations, the collections during the fiscal year 1926-27, will presumably be quite similar in amount. Comparing this annual revenue with that secured under the old "Willis Act," prior to the court decision which relieved foreign corporations, there was a reduction as compared with the fiscal year 1923-24, of \$1,600,000 for domestic and \$361,000 for foreign corporations.

It may be assumed that the value of the capital stock of Ohio and foreign corporations under the proposed bill will be much the same as under the present law. It will be seen therefore that if the rate be increased from  $1/12$  of 1% to  $1/10$  of 1% the revenue to be derived from domestic corporations will be about \$4,650,000 and that from foreign corporations about \$850,000. If the rate were  $1/8$  of 1% the total revenue produced would presumably exceed slightly that secured under the original "Willis Act". Since there has been some considerable loss of revenue under the present franchise tax as compared with the previous law it is reasonable that this revenue be restored.

(b) *A Mortgage Recording Tax*—Some years ago a law was passed providing for a mortgage recording tax and exempting this form of credit from the general property tax. This act was held unconstitutional as being in conflict with the uniform rule requiring that all property be taxed according to a uniform rule at its true value in money. In 1918 the constitution was amended, Article XII, Section 2, to provide that laws might be passed to prevent the double taxation of real estate and of mortgages or the debts secured thereby. The law which was declared unconstitutional prior to the enactment of this constitutional amendment was repealed in 1925.

It is suggested that a mortgage recording tax law might be enacted similar in character to those which are in operation in various other states. If this were done mortgages or the debts secured thereby should be exempted from the general property tax. The rate of the tax might well be the same as that applying

in New York and Michigan, i. e.,  $1/2$  of 1% of the face value of the mortgage.

According to the report of the Secretary of State for 1924 there were recorded within the state during that year mortgages, exclusive of those on railroad property, to the aggregate value of about one billion dollars. A tax of  $1/2$  of 1% upon such recordings would have produced approximately \$5,000,000. Such a tax would presumably produce revenues of from \$4,500,000 to \$6,000,000 annually and would constitute an important source of income for the state government if no division of the proceeds was made with the local governments.

The question of whether a division of the proceeds should be made must of course be considered since presumably mortgages would be exempted from the general property tax. What loss of revenue to local governments would result from such an exemption? A precise answer cannot be given. However, it is believed that the loss of revenue to local subdivisions would be small indeed. This would seem apparent from the fact that in 1924 the value of all credits assessed for taxation was \$366,080,737, whereas the total grand duplicate was \$12,250,389,725. What portion of the \$366,000,000 represented mortgages or notes secured thereby is not known since this information is not segregated in the tax valuation statements prepared by the various counties. It is known that there are other sorts of credits such as accounts receivable which make up in value a considerable portion—perhaps a half or more—of the total involved. The total loss of revenue to all taxing districts combined might not be over \$1,000,000 and certainly not over \$3,000,000. Total general property taxes levied in 1924 were \$245,000,000. So that on the average the loss to local governments presumably would be about  $1/2$  of 1% or perhaps 1% of their tax revenues.

It would therefore appear that in view of the acute financial condition of the state on the one hand and on the other hand the inconsequential loss of revenue to local governments by exemption of mortgages from the general property tax no attempt should be made to allocate the proceeds of a mortgage registry tax between the state and its subdivisions. If such a tax were adopted it is believed that the state should receive the entire proceeds minus the cost of collection at least until its financial condition is substantially improved.

The tax is one which is easy of administration. It would be computed and collected at the time the mortgage is recorded. Nor would this add greatly to the work of the recording officer.

Provision might well be made in such a law for the exemption from the general property tax of mortgages which had been recorded prior to the passage of the act by declaration and payment of the registry tax. This also should increase the revenue from the tax during the early years of its application.

(c) *A Stamp Tax upon Conveyances, Deeds, Etc.*—In connection with a mortgage registry tax a stamp tax upon deeds and conveyances might well be considered. The Federal Income Tax Law of 1924 provided a stamp tax upon bonds of five cents per \$100, capital stock issued five cents per \$100, capital stock sales or transfers two cents per \$100, conveyances, deeds, etc., fifty cents between \$100 and \$500, fifty cents for each extra \$500. These stamp taxes for bonds, capital stock issues, conveyances, etc., produced \$806,664.58 from Ohio for the fiscal year ending June 30, 1925; from capital stock transfers \$58,049.06. These federal taxes have since been repealed.

It is suggested that a similar tax might be enacted for deeds and conveyances by the state for state revenue purposes. If the same rate were used such a tax would produce presumably an amount similar to that secured under the federal tax upon these instruments. A stamp tax of this kind is easy to collect and is indirect in character. It would constitute a revenue measure of some importance. One important collateral benefit would be that it would aid assessing officials materially in determining the tax value of real estate.

The tax is suggested only for deeds and conveyances, since Ohio now taxes the issuance of new capital stock, and in the case of stock transfers the small amount of revenue to be realized would scarcely warrant levying the tax. Mortgages should be exempt if subject to a registry tax.

(d) *Excise Taxes*—The rates for the excise taxes upon the various classes of public utilities vary considerably in amount at the present time. For example, the rate upon steam railroads is 4% upon gross earnings from intrastate business, whereas upon electric light companies and telephone companies the rate is 1.2% of the gross receipts from intrastate business. Again, the

rate upon insurance companies is 2.5% of gross premiums upon risks within the state. There would seem to be no rational nor compelling reasons for such variations in rates. The Committee had hoped to be able to complete its tax burden study in order that it might undertake a thoroughgoing equalization of the various state taxes if this seemed to be required. However, it would appear that in the case of these series of excise taxes some measure of equalization would be justifiable where rather striking differences in rates exist.

But since the state government is confronted by the imperative need of additional revenue it scarcely can be suggested that the rate upon steam railroads be lowered. On the other hand the rather adverse economic conditions under which many electric railroads operate would argue against raising the low rate of 1.2% which they now enjoy. Rather the legislature should look to those classes of utility companies which enjoy a low rate and which, generally speaking, are having an increasing volume of business. It is believed that electric light companies and telephone companies offer very good examples of this combination of circumstances. The following table indicates that this is the case:



TABLE XVIII  
RECAPITULATION — GROSS EARNINGS AND GROSS RECEIPTS

Nature of Company	1920	1921	1922	1923	1924	1925
Artificial Gas .....	.....	.....	.....	.....	.....	.....
Natural Gas .....	\$52,843,845	\$59,130,367	* \$56,069,014	\$48,618,725	\$541,003	\$724,153
Electric Light .....	30,325,998	39,891,819	41,949,413	70,952,853	57,327,499	55,120,836
Express .....	3,957,791	4,140,383	3,588,429	3,674,849	80,124,397	83,870,667
Heating and Cooling .....	98,053	133,448	116,353	159,583	3,347,448	3,042,625
Messenger and Signal .....	437,600	548,261	654,250	638,543	151,695	158,033
Pipe Line .....	677,050	1,210,634	1,157,937	1,111,795	656,927	720,503
Steam Railroads .....	94,237,403	109,304,870	86,294,540	105,408,243	1,211,558	1,685,736
Interurban .....	82,792,096	86,113,430	78,614,079	76,522,472	98,534,310	87,532,731
Telegraph .....	1,011,052	967,719	734,202	1,004,901	76,191,232	70,366,061
Telephone .....	30,308,510	30,859,380	31,180,275	38,536,482	40,941,821	1,007,023
Union Depot .....	514,186	643,689	535,314	565,482	40,793,730	44,376,816
Water Transportation .....	222,788	276,924	246,149	264,149	574,594	536,787
Water Works .....	1,185,242	1,360,440	1,283,884	1,411,444	308,859	384,435
Total .....	\$298,611,614	\$334,581,364	\$302,432,839	\$348,869,521	1,450,465	1,551,991
					\$362,155,538	\$351,088,397

\* Indicates decrease.

Annual Report of the Ohio Tax Commission, 1925, page 60.

It is believed therefore that an increase in the rate of the tax might be made in the case of electric light and telephone companies. The present rate in each case is 1.2%. Such an increase probably should not exceed 1%. In view of the large volume of business which these classes of utilities now are doing even a moderate increase in the rate of the tax would produce a substantial increase in revenue.

(e) A Billboard Tax — A further possible source of revenue of some little importance might be found in the taxation of billboards. While advertising signs of this sort are not permissible within the rights of way of our state highways the presence of these state constructed and maintained arteries of travel creates the opportunity for the extensive and profitable use of the billboard along these rights of way. This being true it is not unreasonable for the state to levy some sort of special tax upon this form of advertising. Cities have enacted billboard taxes to some extent. It is quite as appropriate that a state government should levy such a tax. The usual method which cities have employed is that of levying a tax of a certain number of cents per square foot or square yard of billboard space. A special state tax of this sort might well be given consideration.

In conclusion it may be said that your Committee believes that if additional revenues are sought the additional burden should not fall solely upon one class of taxpayer or one class of property. Therefore more than one source of revenue should be employed and the rates of taxation adjusted accordingly. It is believed that all of the foregoing suggested sources of revenue are proper and feasible under present constitutional provisions and limitations.



## SECTION III

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### CHAPTER VIII

THE GENERAL PROPERTY TAX AND A MODEL  
TAX PROGRAM

THE GROWTH OF DELINQUENCIES

(131)





## CHAPTER VIII

### The General Property Tax and a Model Tax Program The Growth of Delinquencies

**Abolition of the "Uniform Rule".** — Your Committee recommends that the uniform rule of taxation as contained in Article XII, Section 2 of the constitution be repealed. The specific language involved is as follows: "Laws shall be passed, taxing by a uniform rule, all moneys, credits, investments in bonds, stocks, joint stock companies, or otherwise, and also all real and personal property according to its true value in money". The removal of this language from the constitution would require the favorable action of the voters of the state.

The Supreme Court of the state has declared that Article XII, Section 2, constitutes a limitation upon the power of taxation vested in the legislature by Article II, Section 1, of the constitution. (See 101 O. S. 132.) The Court in the same decision declared that Article II, Section 1, includes within the general legislative power granted the general assembly the power of taxation in general. Therefore it would appear that with the uniform rule provision removed from the constitution the legislature would have adequate power to deal with the whole subject of taxation. Presumably no further grant of power would be necessary other than that contained in Article II, Section 1.

The Committee's reasons for this recommendation are as follows:

1. The uniform rule, it believes, is unsound in principle.

The uniform rule and its resultant form of tax — namely the general property tax — assume that all property of whatever kind and of whatever earning power is equally able to pay taxes according to its true value in money. It scarcely needs argument to prove that different classes of property do not have equal tax paying ability. Can it be argued that a bond secured by land, buildings and equipment has a tax paying capacity apart from the actual value and earning capacity of the property which is mortgaged? The answer is self evident. The same reasoning

applies to the capital stock of a corporation. Shares of domestic corporations are tax exempt by law which statute is a tacit admission of the unsoundness of the uniform rule. Much tangible personal property has no tax paying ability at all. Can it be argued that household goods, clothing and ornaments have any tax paying capacity? Obviously they do not. This is recognized to a limited extent by the clause in Article XXII, Section 2, providing that the legislature may exempt personal property from taxation to the value of \$500 for each individual. Various other states having the uniform rule are much more liberal in personal property exemptions than is Ohio. All such exemptions are but a practical admission of the unsoundness of the uniform rule and the general property tax.

Upon these points we quote from Harley L. Lutz, Ph. D., a national known tax authority, in his able treatise, "Public Finance," pages 326-329:

The general property tax "is still regarded by many people, and in those states which have resisted all attempts at modification evidently by a majority of the people, as a counsel of perfection. Nevertheless, its increasing inadequacy has long been recognized by all qualified students of the system, and by all those who have found it an easy matter to reduce their taxes under it, or to evade them entirely.

"The theoretical defects, as we have termed them, are in the assumption that property and property rights, taken as a homogeneous whole, constitute an adequate and comprehensive measure of the ability of all citizens to pay taxes. That is, the general property tax rests on the assumption that a given amount of any one kind of property or property rights represents the same degree of taxpaying ability as that to be found in an equivalent amount of any other kind. A further assumption is that property is a sufficiently broad measure of ability to reach all persons who have any taxpaying ability. As we have suggested, these assumptions may have been sound enough for practical purposes under fairly simple economic conditions; they became increasingly unsound as the simple conditions of border agriculture and handicraft industry gave way to the complex economic structure of modern life. They are absolutely untenable today.

"The first of these assumptions, that property is like a yardstick and always measures the same amount of taxable capacity, is untenable today because it ignores the changes in the forms and character of property and property rights that have come with modern economic and industrial evolution. One of the

most significant aspects of this evolution has been the continued splitting up of the forms of property and the indefinite subdivision of rights and interests in property, until we have at the present time a vast and complicated series of such rights. The corporation issues stocks and bonds of numerous types, each of which represents a different relation in which the holder may stand to the income, the management or the risks involved in the corporate enterprise. The mechanism of modern trade gives rise to drafts, acceptances and notes, while the modern bank creates deposit credits payable in money by the simple process of discounting a note and crediting the borrower with the proceeds of the loan. All of these forms of intangible property or property rights are useful and convenient devices which have been developed for the purpose of representing different degrees of ownership and control of the underlying economic goods. Their development is indicative of the way in which the interests in wealth have been subdivided in order to improve the effectiveness of our use of wealth for the satisfaction of wants. This subdivision has produced a vast mass of so-called intangible property rights, of which stocks, bonds, notes and bank deposits are examples. For the most part these intangibles represent some kind of interest in or control over economic goods somewhere.\* They would be valueless otherwise. Income obtained through their ownership is drawn from that which is produced through the creation, use or sale of tangible wealth. As this income flows from the processes of production it is split up into various portions, one of which may go to the holder of a savings account, another to a bondholder, another to the owner of preferred or common stock, and so on. Some of these portions are strictly limited in amount, regardless of the total income which a given enterprise may yield.

"Two results follow from this development of intangible property rights, both of which are fatal for the original assumption of the general property tax. The first is that these various forms of legal property no longer represent equal degrees of capacity to pay taxes since the amount of income that may be realized varies widely with different forms. The second is, that regardless of the differences in income-yielding power, the taxation of all intangibles as property, *in addition* to the taxation of

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\*We recognize that some intangibles, such as patent rights, copy-rights, trademarks and business good will, do not represent definite tangible goods. The impossibility of separating all intangibles into these two classes compels us to treat them all alike, but the aggregate of those which do not constitute evidences of tangible wealth is not sufficient to invalidate our analysis.



the tangible property which these intangibles represent and rest upon, is double taxation.\* It is counting the same thing twice over. We must conclude, therefore, that the property concept no longer contains such simple and homogenous elements that any part of it may be regarded as indicating a degree of ability equal to any other part. We have said nothing of personal belongings, household goods and other entirely unproductive forms, which are considered, according to this tax, to indicate a great degree of taxable capacity as any other kind of property. A certain amount of these forms of property is frequently specifically exempted from taxation, but this policy is really an admission of the weakness of the general property tax. If property is the measure of ability, then all degrees of possession must represent some degree of ability and to this extent the owner should contribute.

"The results of our analysis may be set forth more concretely by an illustration. Let us suppose that an individual has a farm which, with all equipment, represents a value of \$100,000. According to the theory of the general property tax it would be reasonable to assess him for that amount, provided a full value assessment could be generally made. Suppose, now, that for any reason whatever, this farmer should decide to incorporate his farming business, and that he transfer his title to the land and other property to a corporation, taking in exchange the company's stock, valued at \$100,000. The company's assets would consist of the farm property and equipment, worth \$100,000, while its liabilities would consist of the stock held by the original owner of the farm. According to the theory of the general property tax, strictly applied, this simple step of incorporation has created \$200,000 of property for taxation, consisting of the \$100,000 of tangible property which would be taxed to the corporation, and the \$100,000 of stock which would be taxed in the hands of the owner. It must be clear enough that the mere act of incorporation has created no fundamental wealth, and no taxable capacity, that did not exist before. An assessment of \$200,000 would actually be counting the same wealth twice. The shares of stock represent simply another way of controlling and managing the economic goods formerly held outright by the farmer. These shares have value only if there are genuine corporate assets and a real earning power beneath them. They are in the truest sense representative property, or rights to property, and unless the property itself, in the form of economic goods, really exists somewhere, they are the merest scraps of paper. Everyone who has made a mistake in his investments is in a position to realize acutely just how worthless they are.

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\*An exception is made in the preceding note.

"It is as true of most other forms of intangible property as of corporation stocks that they are simply representative of economic goods, from which they derive whatever value and income power they may possess. Yet every case of the assessment of intangible or representative wealth as being co-ordinate with the tangible wealth upon which it rests, is just as clear a case of counting the same thing twice as it was shown to be in the above illustration. The assessment of the property of the corporation and of its stocks and bonds under the general property tax really means that its assets and liabilities are added together to determine the total value for taxation."

Ohio is now a highly developed industrial and agricultural state. Property within its domain is of many diverse kinds. The development of its industrial and commercial life has meant the growth to vast amounts of various classes of intangible property and "representative wealth". Most intangible property has a fixed rate of return which depends upon the earning capacity of real and other tangible property. Personal tangible property is of a great many different sorts, but much of it is in the form of consumable goods which have no productive capacity whatever. Real property constitutes another class, and so far as the actual application of the general property tax is concerned, the principal class of property. Yet despite the wide differences in the kinds and productivity of these various classes of property Ohio still attempts to tax them all (except for certain exemptions) according to a uniform rule. The uniform rule and the general property tax may have been wise and proper in Ohio seventy-five years ago but they are no longer tenable in the judgment of your Committee.

## 2. The uniform rule cannot be enforced.

In the case of intangible property no workable methods can be devised for securing the listing of any considerable amount of such property for taxation at high rates. Vigorous administration will drive many owners of such property to invest such holdings in tax exempt securities or to locate such property outside the state or in some jurisdiction in the state where assessment practice is less severe. Many owners will sequester such property running whatever risk may be involved rather than declare it and have it taxed at rates which they believe confiscatory.

If assessment practice is lax only inconsequential amounts of intangible property will be listed and the uniform rule goes by default, resulting in the tax burden falling only upon those classes of property which cannot be hidden, chiefly land and buildings.

In Ohio, where there has been as notable an effort to secure the listing of intangibles as perhaps in any uniform rule state, the total of such property listed averages less than 10 per cent of the total tax duplicate.

In 1924, for example, the Secretary of State reports that mortgages, exclusive of those on railroad property to an aggregate value of about \$1,000,000,000 were recorded in Ohio. The total value of credits, including mortgages, accounts receivable, notes, bonds, etc., listed for taxation in the entire state for 1924 was only \$366,000,000. Money on deposit and listed for taxation totaled \$269,039,951 in 1924, whereas an examination of bank statements reveals that the total amount of money on deposit in the banks throughout the state was about ten times that amount. No further illustrations should be necessary to point out the inescapable inference that vast amounts of intangible property are escaping taxation.

Securing the accurate and full listing of certain kinds of personal tangible property, while not impossible, is very difficult. This is true of such things as household goods, wearing apparel and other personal belongings and to a considerable extent of farm products, livestock, poultry, merchandise and raw materials. Much of such property is of relatively little value and scarcely warrants the expenditure of the necessary money and effort to secure its complete listing. This is particularly true of household goods and personal belongings.

### 3. The uniform rule is unjust and inequitable.

The taxation of intangible property such as mortgages, bonds, shares of stock as well as the property which these instruments represent is double taxation. This would not be serious if the rate of taxation were sufficiently low. But with an average tax rate of 2% the double taxation resulting where both forms of property are in fact taxed, is a very serious matter. In effect the same wealth is being counted twice and the sum of the two

values taxed at a high rate. Such a procedure approaches dangerously near confiscation.

It is a well-known fact that while some intangible property is listed and assessed for taxation a great deal is not. This introduces another element of injustice for which there can be no defense. No system of enforcement yet devised has succeeded in bringing any considerable percentage of the intangible property actually existing onto the tax duplicate at the high rates prevailing. Therefore it would appear that the injustice of having some intangible property taxed and a great deal not taxed can presumably be remedied only by eliminating the uniform rule.

Even in the case of intangible property which does not represent any specific tangible property such as money the present tax rate throughout Ohio is so high that it is equal to one-third or one-half of the current return upon money placed at interest. Money has a fairly fixed rate of return and a form of taxation which exacts any large percentage of that return is manifestly unjust.

Real property tends to be unduly burdened under the uniform rule. By preventing the taxation of intangibles upon an income basis or at rates sufficiently low to secure an adequate listing of them the uniform rule makes impossible the checking of the ever increasing tax burden on real property. Under modern conditions the general property tax tends to become more and more a tax upon land and buildings and with the barrier of the uniform rule confronting it no legislature can do much to change this condition. It is doubtful whether real property should be about the only kind of property and the only important source of income called upon to support all local governments. Yet this is what a continuation of the uniform rule presumably means.

This consideration leads logically to still another injustice which the inflexible uniform rule causes. There are many individuals who own relatively little tangible property but who have a substantial earning capacity. The professional classes and the higher ranges of the skilled trades constitute a group whose chief stake is their technical knowledge or skill rather than productive tangible property. As a practical matter no personal income tax can be superimposed upon a general property tax. Therefore many individuals who have tax paying ability but



little property tend to escape from contributing their fair share to the support of their government. But under the uniform rule this injustice cannot be remedied.

Another very serious injustice of the general property tax is that it puts a premium upon dishonesty and evasion. The conscientious citizen is penalized for his honesty, whereas those who evade the tax reap immediate and substantial benefit. Upon this point we quote a pertinent statement from Mr. Lutz, "Public Finance", pages 349-350:

"The advantage secured by dishonesty is so evident and so immediate and the corresponding penalties for disclosure of one's intangible property are so severe, that evasion is virtually forced upon the owners of such property. We recognize that the highest dictates of morality afford no justification for violating the laws and committing perjury, but we insist also that there is no defense for a tax system which inflicts penalties so severe as to subject taxpayers to an irresistible temptation to evade."

4. The uniform rule puts Ohio at a very serious disadvantage as compared with states not having this limitation.

In these days of free interchange of goods between all parts of the country there is much competition between industries located in different states. This applies to the products of agriculture as well as manufacturing. If one state has a tax system which is less favorable to agriculture, manufacturing and to business in general than the tax systems of surrounding and competing states, the state is suffering under a distinct handicap. Ohio is in such a position. Certain nearby states which have great industrial and agricultural development have tax systems which are notably more favorable and equitable to these vital activities. Of these New York and Pennsylvania are outstanding. Neither of these has the uniform rule in its constitution. Nor does either attempt to tax all classes of property according to a uniform rule.

New York does not attempt to tax intangibles including money on deposit as property at all. Its laws also exempt the tangible personal property of business corporations and motor vehicles, except those in the hands of manufacturers and dealers. Household furniture and personal effects to the value of \$1250

are also exempt. Debts may be offset against property. Thus it is seen that this great neighboring state has no general property tax dominated by the uniform rule. It has eliminated the major difficulties, injustices and inequalities with which Ohio is handicapped under the uniform rule. In place of Ohio's attempt to tax all property under a uniform rule, New York has:

- a. A property tax upon real property and the personal tangible property of individuals, partnerships and public utility companies with the liberal personal property exemption of \$1250 mentioned in addition to motor vehicles.
- b. A personal income tax upon individuals resident in the state and on income of non-residents derived in the state. This is similar to the Federal Income Tax law, is upon net income with rates from 1-3% upon a graduated scale.
- c. A business income tax upon a wide range of business corporations, domestic and foreign. The tax is levied upon the net income derived from business within the state. The rate is  $4\frac{1}{2}\%$  upon such income. This tax is in lieu of the general property tax upon personal property and capital stock.
- d. Franchise taxes upon utilities based upon gross intra-state earnings.
- e. Certain other license, privilege and business taxes of lesser importance.
- f. An inheritance tax and an estate tax on net estates of over \$1,000,000.

Turning to Pennsylvania a different system is found, but no attempt is made to apply a uniform rule of taxation upon all classes of property. Its constitutional provision upon the subject is well known and provides that "All taxes shall be uniform *upon the same class of subjects* within the territorial limits of the authority levying the tax and shall be levied and collected under general laws \* \* \*". This provision is now over 100 years old and has pointed the way to various other states that have departed from the uniform rule.

Real and tangible personal property are taxed only for local purposes. The personal property of corporations is largely exempt. Intangibles are taxed at a low rate — 4 mills on the dollar. Some sorts of intangibles are taxed exclusively by local

governments and others exclusively by the state. No attempt is made to tax intangibles at high rates.

The state government is supported chiefly by business taxes. There is a capital stock tax, corporate loans tax, bank stock tax, building and loan tax, stock transfer tax and gross receipts tax on the principal classes of public utilities, coal tax and liquid fuels tax.

It is thus apparent that both New York and Pennsylvania have tax systems which are more equitable, easier of administration and a great deal fairer to industry, agriculture and corporate business enterprises than the Ohio system. The individual taxpayer does not have to choose between perjury and confiscation in the matter of intangibles. The New York system is on the whole more progressive but both offer tremendous advantages over Ohio's antiquated and inflexible general property tax under the uniform rule.

Kentucky has rather recently abandoned the uniform rule and is now taxing intangibles at rates under which it may be reasonably expected that this property will be reached and made to actually contribute to meeting the cost of government.

Massachusetts and Connecticut have no constitutional uniform rule to hamper them. Massachusetts has an income tax.

Minnesota has an interesting application of a modified property tax. Money and credits are listed separately and taxed at the low rate of 3 mills on the dollar. This method of taxing money and credits has been distinctly successful as compared to the old plan of attempting to reach them at high rates of taxation.

Farm land is assessed at 33 1/3% of its full and true value; urban land at 40%; iron ore, mined or unmined, is assessed at 50% of its true value; household goods at 25%; livestock, farm products, stocks of merchandise, materials and manufactured articles, tools, implements and machinery at 33 1/3%; agricultural products in hands of producers and not held for sale, all agricultural tools, implements and machinery at 10%; all other personal property subject to the general property tax is assessed at 40%. The stock and the moneyed capital of banks and mortgage loan companies are assessed at 33 1/3% of their true value.

Other states which do not have the uniform rule in their

constitutions are Arizona, California, Colorado, Delaware, District of Columbia, Idaho, Iowa, Louisiana, Maine, Maryland, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, Oklahoma, Oregon, Rhode Island, South Dakota, Virginia, Wisconsin, Wyoming.

Illinois voted this year upon the question of breaking its uniform rule. A majority of those voting favored the change but the legal majority necessary for passage was not secured. This state will in all probability abandon the uniform rule in the near future and another great, competing state will have passed out of the uniform rule class.

Ohio should lose no time in eliminating the uniform rule if it is to remove a great handicap and if it is to have a modern and progressive tax system.

5. The outstanding authorities in the field of taxation agree that the general property tax under the uniform rule is untenable in principle and under modern conditions, increasingly more unworkable in practice.

**After the Uniform Rule — What? —** Your Committee believes that in addition to recommending the abolition of the uniform rule it should indicate in general what system of taxation it would consider were the uniform rule moved from the constitution. The removal of the uniform rule would give Ohio an opportunity to revamp its tax system, state and local, such as it has not had for seventy-five years. It would be an opportunity that would merit the most thoughtful action.

An interesting example of a tax system which might be adopted is a model tax program prepared by a Committee of the National Tax Association. Your Committee believes that many features of this plan should be adopted, although some features would probably not be applicable to Ohio. The plan is presented herewith as the basis for a comparison of existing revenues with those which might be derived from the different types of taxation involved. In particular your Committee believes that motor vehicles should be entirely exempted from taxation in view of the more effective method of taxing through gasoline and license taxes. It also would be possible to substitute a low classified rate on securities for a personal income tax,



if that plan seemed to be the better, the yield being approximately the same.

The model plan is to be found in the Proceedings of the Twelfth National Conference of the Association, pages 426-470. In order to present the salient features of the plan extracts from the report of the Committee which prepared it are presented. The plan embraces:

a. A personal income tax.

Upon this the committee says: "This tax is better fitted than any other to carry out the principle that every person having taxable ability shall make a reasonable contribution to the support of the government under which he lives. It is as fair in principle as any tax can be; under proper conditions, it can be well administered by an American state, as Wisconsin and Massachusetts have proved; it is a form of taxation which meets with popular favor at the present time, and therefore seems to offer the line of least resistance. The committee, therefore, is of the opinion that a personal income tax is the best method of enforcing the personal obligation of the citizen for the support of the government under which he lives, and recommends it as a constituent part of a model system of state and local taxation. \* \* \* Since the purpose of the personal income tax is to enforce the obligation of every citizen to the government under which he is domiciled, it is obvious that this tax must be levied only upon persons and in the states where they are domiciled. It is contrary to the theory of the tax that it should apply to the income from any business as such, or apply to the income of any property as such. The tax should be levied upon persons in respect to their entire net incomes, and should be collected only from persons and at places where they are domiciled. \* \* \*"

b. A property tax upon real estate and tangible personal property.

"The second part of the tax system proposed by the committee is a tax upon tangible property, levied exclusively at the place where such property is located. By this means the several states will be able to satisfy adequately and fairly their just claims in respect of property enjoying protection and other benefits under their laws.

"Concerning this tax, it will be observed, we recommend that it be confined to tangible property, and that intangible property of all descriptions be exempt from taxation as property. All attempts to reach such property under the general property

tax have in the past proved failures, and in our opinion, with the rates of taxation now prevailing in the several states, will always fail to accomplish the desired end. Moreover, they necessarily involve a large amount of unjust multiple taxation which we can see no way of avoiding under the property tax.\* We believe that the personal income tax which we already recommended will reach income from intangible property fully and fairly at the only place where it can be taxed without running the risk of unjust double taxation, that is, at the domicile of the recipient. With this provision made for deriving a fair revenue from intangible property, it is obviously undesirable that the states should continue to tax it as property, and we therefore recommend that, under the proposed system, property taxation be confined exclusively to tangible property."

c. A business tax.

"The committee has come to the conclusion, therefore, that the proposed business tax should, except in certain cases, be levied upon the net income derived from business carried on within the state levying the tax. Prior to the coming of the federal income tax, it would probably have been unwise and impracticable to adopt net income as the basis of business taxation. But today every business concern of any considerable size is obliged to make a return of its net income to the federal government; and it is, therefore, both practicable and convenient to impose a business tax upon net income. This will involve, of course, in the case of interstate concerns, the determination of the proportion of the income derived from business carried on in each state. But there are practicable methods of making such a determination, so that no serious difficulty need arise at this point."

"It goes without saying that the business tax we recommend is proposed as a substitute for all existing business taxes. The diversity, multiplicity, and inequality of the existing taxes levied upon business by both state and local authorities in many commonwealths have long constituted serious evils, and the time has certainly come when better methods should be adopted. \* \* \*"

d. An inheritance tax.

The committee says: "Such taxes are now in operation in almost every state, and it is certain that they are a permanent

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\*As an illustration of this we may refer to the vast amount of litigation, uncertainty, and injustice resulting from the attempt to fix the *situs* of intangible property and from the recognition of a so-called "business situs" for intangible property which inevitably brings about unjust double taxation. This subject will be further alluded to in our discussion of the business tax which we think should remove the cause of this difficulty.

11 J. L. C.

part of our system of taxation. The committee strongly favors the use of the inheritance tax by the American states, and is in general accord with the various recommendations which have been made from time to time by committees appointed by the National Tax Association. \* \* \*

### **An Illustrative Application of the Model Tax Plan**

It is interesting to make a hypothetical application to Ohio of certain taxes proposed in the model tax plan. This was done by Albert E. James in an address before the Ohio Tax Association in January, 1924. The following application is similar to that made by Mr. James, but follows somewhat more closely the plan outlined by the Committee of the National Tax Association. The calculations of Mr. James employed tax and valuation figures for 1920, 1921 and 1922, whereas in the calculations here made, valuation figures for 1924 and federal tax figures for 1923 and local tax figures for 1924 are used.

In the first place the tax on real property is not affected. Under the plan all intangible personal property of individuals and corporations is exempted from the property tax. Personal tangible property is taxed at 1 per cent, the maximum rate suggested under the model plan. There is first set up an analysis of the personal property duplicate for 1924 with an average tax rate of 2 per cent applied to such valuation.

#### **EXHIBIT A.**

##### **ANALYSIS OF THE ASSESSMENT OF PERSONAL PROPERTY AND ESTIMATE OF TAX LEVY THEREON — STATE OF OHIO — YEAR 1924**

<i>Classes of Property</i>	<i>Farm</i>	<i>Individuals</i>	<i>Corporation</i>	<i>Total</i>
<i>Property</i>	<i>Tangible</i>	<i>Assessed</i>	<i>Assessed</i>	<i>Assessed</i>
		<i>Value</i>	<i>Value</i>	<i>Value</i>
Horses .....		\$37,247,734	\$1,119,635	\$38,367,369
Cattle .....		52,087,655	238,225	52,325,880
Sheep .....		10,819,394	8,485	10,827,879
Hogs .....		15,724,224	39,450	15,763,674
Poultry .....		10,617,582	1,240	10,618,822
Mules and Asses.....		1,968,820	129,760	2,098,580
Farm Tools and Machinery		38,976,385	1,573,978	40,550,363
Farm Products.....		11,603,735	137,130	11,740,865
Dogs .....		257,993	.....	257,993
<hr/>				
Total Farm Property.....		\$179,303,522	\$3,247,903	\$182,551,425
Tax at 20 Mills.....		3,586,070	64,958	3,651,028

## EXHIBIT A — Continued

<i>Intangible Property</i>	<i>Individual</i>	<i>Corporation</i>	<i>Total</i>
Money in possession or on			
Deposit .....	\$183,234,361	\$85,805,590	\$269,039,951
Credits .....	194,943,356	171,137,381	366,080,737
Bonds, Stocks, etc.....	116,213,328	65,570,963	181,784,291
Property converted into			
Non Tax Securities.....	6,133,165	5,817,088	11,950,253
Annuities .....	542,111	5,880	547,991
Total Intangibles.....	\$501,066,321	\$328,336,902	\$829,403,223
Tax at 20 Mills.....	10,021,326	6,566,738	16,588,064
<hr/>			
<i>Consumption Goods</i>			
Household Goods and Fur-			
niture .....	\$146,703,766	\$182,825	\$146,886,591
Pianos and Musical Instru-			
ments .....	33,649,608	20,190	33,669,798
Motor and Other Vehicle..	208,514,338	20,796,005	229,310,343
Total Consumption Goods.	\$388,867,712	\$20,999,020	\$409,866,732
Tax at 20 Mills.....	7,777,354	419,980	8,197,334
<hr/>			
<i>Classes of Property—Busi-</i>			
<i>ness Prop. (Except</i>			
<i>Banks and Public</i>			
<i>Utilities)</i>			
Motor Boats and Other			
Vessels .....	\$422,068	\$14,068,795	\$14,490,863
Office Furn.....	12,778,859	23,007,039	35,785,898
Mining Mch. and Equip-			
ment .....	831,835	8,680,792	9,512,627
Other Personal.....	24,198,764	45,525,494	69,724,258
Merchandise .....	114,227,672	194,144,452	308,372,124
Pawnbrokers .....	389,345	3,090	392,435
Mfrs. Stocks.....	9,021,070	487,482,649	496,503,719
Mfrs. Tools and Mch....	13,691,472	203,763,524	217,454,996
Total Business .....	\$175,561,085	\$976,675,835	\$1,152,236,920
Tax at 20 Mills.....	3,511,222	19,533,517	23,044,739
<hr/>			
<i>Public Utilities and Banks</i>			
Public Utilities—R. R.....		\$1,445,301,630	\$1,445,301,630
Banks .....	\$1,337,710	251,780,940	253,118,650
Total Pub. Util and Banks	\$1,337,710	\$1,697,082,570	\$1,698,420,280



	<i>Individual</i>	<i>Corporation</i>	<i>Total</i>
Tax at 20 Mills—			
Public Utilities.....	.....	\$28,906,033	\$28,906,033
Banks .....	\$26,754	5,035,619	5,062,373
Total .....	\$26,754	\$33,941,652	\$33,968,406

Next is shown the valuation of personal tangible property subject to the 1 per cent tax. In this calculation the value of bank shares has been treated as an intangible and therefore exempted from the property tax altogether. The total amount is \$3,104,241,847. The tabulation follows:

## EXHIBIT B

SHOWING THE ASSESSED VALUATION OF PERSONAL PROPERTY FOR 1924  
SUBJECT TO 1% RATE OF TAX UNDER THE PROPOSED PLAN

## ASSESSED VALUATION

	<i>Individual</i>	<i>Corporation</i>	<i>Total</i>
Farm Property .....	\$179,303,522	\$3,247,903	\$182,551,425
Intangibles .....	501,066,321	328,336,902	829,403,223
Consumption Goods....	388,867,712	20,999,020	409,866,732
Business Property (Exc. Banks and Public Utilities) .....	175,561,085	976,675,835	1,152,236,920
Banks and Public Util- ities .....	1,337,710	1,697,082,570	1,698,420,280
Total Valuation.....	\$1,246,136,350	\$3,026,342,230	\$4,272,478,580
Less Statutory Exemp- tions .....	85,714,860	.....	85,714,860
Total Assessed Valuation	\$1,160,421,490	\$3,026,342,230	\$4,186,763,720
<i>Deduct</i>			
Intangible Property.....	\$501,066,321	\$328,336,902	\$829,403,223
Banks .....	1,337,710	251,780,940	253,118,650
Total Deduction.....	\$502,404,031	\$580,117,842	\$1,082,521,873
Valuation subject to tax at 1%.....	\$658,017,459	\$2,446,224,388	\$3,104,241,847
Tax at Rate of 1%.....	\$6,580,174.59	\$24,462,243.88	\$31,042,418.47

Next is presented a tabulation showing the losses in revenue that would result by the modifications in the general property tax and through foregoing of the excise taxes on public utilities and insurance companies, corporation franchise tax and the bank share tax, all of which would be repealed under this application of the model plan.

## EXHIBIT C

SHOWING THE ESTIMATED LOSS ON INTANGIBLE PERSONAL PROPERTY, BANK SHARE TAX AND TANGIBLE PERSONAL PROPERTY SUBJECT ONLY TO THE 1% RATE AND EXCISE AND CORPORATION CAPITAL STOCK TAXES

(Levies estimated on a basis of 20 Mills per \$1.00 valuation)

	<i>Individual</i>	<i>Corporation</i>	<i>Total</i>
Farm Property.....	\$3,586,070	\$64,958	\$3,651,028
Consumption Goods.....	7,777,354	419,980	8,197,334
Business Property (except Banks and Public Utilities) .	3,511,222	19,533,517	23,044,739
Banks .....	26,754	5,035,619	5,062,373
Public Utilities.....	.....	28,906,033	28,906,033
Intangible Property .....	10,021,326	6,566,738	16,588,064
Total .....	\$24,922,726	\$60,526,845	\$85,449,571
Less Statutory Exemptions....	1,714,297	.....	1,714,297
Net Tax Levy.....	\$23,208,429	\$60,526,845	\$83,735,274
Tax Levy at 2% Exempted...	\$23,208,429	\$60,526,845	\$83,735,274
Add—Loss of Excise Taxes on—			
Public Utilities.....	.....	\$7,332,434	\$7,332,434
Insurance Companies.....	.....	3,758,163	3,758,163
Capital Stock Tax on—			
Domestic Corporations..	.....	5,471,235	5,471,235
Foreign Corporations...	.....	1,069,544	1,069,544
Total Exemptions.....	\$23,208,429	\$78,158,221	\$101,366,650
Less Revenues from Tax at 1% Rate.....	6,580,175	24,462,244	31,042,419
Estimated Loss.....	\$16,628,254	\$53,695,977	\$70,324,231

Here it will be noted that the total loss of revenue involved by

- a. Exemption of all intangibles.
- b. Taxation of personal tangibles (as indicated in Exhibit B) at 1 per cent instead of 2 per cent.

- c. Repeal of excise taxes on utilities and insurance companies, the franchise tax on corporations and the bank share tax.

amounts to \$70,324,231.

Next is shown the net taxable income of individuals and corporations according to federal returns for 1923. This income it is proposed shall be taxed by a state income tax.

#### EXHIBIT D

##### ANALYSIS OF PERSONAL AND CORPORATION NET INCOME — FEDERAL RETURNS — STATE OF OHIO — YEAR 1923

<i>Personal Income Tax Returns, 1923</i>		<i>Amount</i>
Wages and Salaries.....		\$925,233,750
Business .....	\$263,996,457	
Partnerships and Fiduciaries.....	91,054,830	
Total Business .....		\$355,051,287
Sale Property .....		33,484,212
Rents and Royalties.....		112,299,124
Dividends .....		194,734,135
Interest and Investment Income.....		51,114,026
Interest on Government Obligations.....		2,726,404
Capital Net Gain—Sale of assets held for more than two years .....		8,778,720
Total Income .....		\$1,683,421,658
<i>Deductions</i>		
General .....	\$191,316,576	
Contributions .....	34,408,515	
Total Deductions .....		\$225,725,091
Net Income Personal.....		\$1,457,696,567
<i>Corporation Income Tax Returns, 1923</i>		
Agriculture .....		\$552,413
Mining and Quarrying.....		22,987,306
Manufacturing .....		335,393,957
Construction .....		5,823,361
Trade .....		67,341,038
Public Service — Not Utilities.....		9,388,831
Miscellaneous .....		5,289,090
Public Utilities .....		50,772,294
Finance, Banking, Insurance, Etc.....		41,053,747
Total Income Corporation.....		\$538,602,037

From the report of Commissioner of Internal Revenue, 1923, pages 72 to 73 inclusive and page 108.

This shows a total net taxable income for individuals of \$1,457,696,567 and for corporations of \$538,602,037.

Next is shown federal statistics of income returns for individuals in the State of Ohio for 1923. These incomes are divided into six classifications according to their size. Graduated rates ranging from 2 to 6 per cent are applied to the several ranges of net income.

## EXHIBIT E

## STATISTICS OF INCOME, FEDERAL, STATE OF OHIO—1923—CLASSIFIED FOR PURPOSES OF THIS STUDY

	<i>Amount</i>
Net Income .....	\$1,003,108,700
Personal Exemptions .....	450,638,481
Net Taxable Income.....	552,470,219

<i>Classification</i>	<i>Amount</i>	<i>Rate</i>	<i>Tax Yield</i>
Under \$10,000 .....	\$407,928,462	.02	\$8,158,569 24
10,000 to 19,999 .....	57,929,558	.02	1,158,591 16
20,000 to 29,999 .....	25,911,049	.03	777,331 47
30,000 to 39,999 .....	14,853,585	.04	594,143 40
40,000 to 49,999 .....	9,235,597	.05	461,779 85
50,000 and over.....	36,611,968	.06	2,196,718 08
Total Income .....	\$552,470,219		
Total Tax Yield.....			\$13,347,133 20

Statistics of Income—U. S. Internal Revenue Report, pages 181 and 182.

The amount produced under this set up is \$13,347,133.20.

Exhibit F shows the estimate of the proposed individual and business income and corporation income taxes. The rate on individual net income is from 2 to 6 per cent and on business and corporate income a flat  $4\frac{1}{2}$  per cent.



## EXHIBIT F

## ESTIMATED YIELD OF PROPOSED INCOME TAXES

1. Individual Income Tax, 1923—		
(See Exhibit E).....	\$13,347,133	20
2. Business Income Tax—		
Income Partnerships and Fidu-		
ciaries, 1923 .....	\$91,054,830	
(See Exhibit D)		
Income from Business.....	263,996,457	
(See Exhibit D)		
	<hr/>	
Total Business Income.....	\$355,051,287	
Net Business Income Tax at Rate of $4\frac{1}{2}\%$ .....	15,977,307	91
3. Corporation Income Tax—		
Net Income Corporations, 1923...	538,602,037	
(See Exhibit D)		
Net Corporation Income Tax.....	24,237,091	67
	<hr/>	
Total .....	\$53,561,532	78

The total estimated yield from these income taxes is \$53,561,532. The loss of revenue by the changes proposed as shown in Exhibit C is \$70,324,231. The deficiency in revenue resulting is therefore \$16,762,698. This sum is approximately equal to the total of the excise taxes for the year 1924.

These "Exhibits" are set up merely for purposes of information and study. If such taxes were applied as above illustrated it would be necessary to retain the excise taxes on utilities as is the case in New York or the income tax rate on business income would have to be higher than  $4\frac{1}{2}\%$  to compensate for the reduction in property taxes. The  $4\frac{1}{2}\%$  rate was selected because it has been used in certain other states. Taxes at low rates on intangibles and deposits would produce large sums. In fact a low tax on all intangibles might be as productive as a personal income tax.

In the application of the model plan made by Mr. James certain important differences exist. In that plan all personal property, both tangible and intangible, except motor vehicles and that of public utilities and banks, was exempted from the property tax. His plan did not contemplate the repeal of the excise taxes on utilities and insurance companies nor the bank share tax.

These businesses were not made subject to the net income tax however.

The result of this modified application of the model plan as calculated for 1924 shows total loss of revenues from the exemptions proposed of \$46,894,957; and total revenues from the income taxes applied (at rates of 2 to 6 per cent on individual income, 4½ on business and corporate income) of \$49,429,360.94.

In general it may be said that the repeal of the uniform rule would make possible the imposing upon business and intangible property a fair and just proportion of the total tax burden by methods which would reduce evasion to a minimum. Of course, if new revenues were set up to supplant old ones a fair division of them would have to be worked out between the state and local governments.

#### **Repeal of \$500 Personal Property Exemption Desirable.—**

One further observation remains to be made with reference to the repeal of the uniform rule provision of the constitution. Article XII, Section 2, provides that the legislature by general law may exempt from taxation personal property to the value of \$500 for each individual. If the uniform rule were repealed and this provision remained it would constitute an undesirable limitation upon the legislature. It might be wise, as Mr. James suggested, to exempt most personal tangible property from the property tax. Certainly it would be unwise to render it impossible for the legislature to make liberal exemptions of personal property as a part of a model tax plan. Therefore this provision should be repealed along with the uniform rule.

#### **The General Property Tax and the Growth of Delinquencies**

A feature of the operation of the general property tax which challenges attention is the growth in amount of delinquencies during the past few years. Since 1920 the increase in unpaid taxes has been particularly rapid. In 1925 the total delinquencies amounted to about 10% of the total general property tax levy. The following table shows total taxes levied (exclusive of special assessments) and total delinquencies (exclusive of special assessment delinquencies) for the period 1913-1925. It should be understood that the delinquency figures are cumulative and do not represent merely the delinquencies of each given year.

TABLE XIX  
DELINQUENT TAXES AND TAXES LEVIED — STATE OF OHIO, REAL AND PERSONAL PROPERTY, 1913-1925

Year	Delinquent Taxes—Real Estate and Forfeitures.		Delinquent Taxes on Personal Property.		Total Delinquent Taxes.		Total Taxes Levied.	
	Amount	% Incr.	Amount	% Incr.	Amount	% Incr.	Amount	% Incr.
1913	\$2,302,376 07	.....	\$4,849,721 57	.....	\$7,152,097 64	.....	\$79,830,347 74	.....
1914	2,349,923 83	2 06	5,400,372 07	\$11 35	7,750,295 90	\$8 36	85,509,420 46	\$7 11
1915	2,285,150 32	75*	7,434,076 89	53 29	9,719,227 21	35 89	91,659,708 71	14 82
1916		No Report		.....	9,331,015 45	30 46	102,305,319 37	28 15
1917	3,048,651 90	32 41	7,181,250 96	48 08	10,229,902 26	43 03	113,958,221 09	42 75
1918	4,214,013 62	83 02	8,147,086 34	67 99	12,361,099 96	72 83	124,087,104 15	55 43
1919	4,381,528 41	90 30	2,449,784 83	49 49*	6,831,313 24	4 48*	147,374,910 19	84 61
1920	5,253,555 37	128 18	2,918,911 12	39 81*	8,172,466 49	14 27	205,386,503 37	157 27
1921	7,907,507 73	243 45	5,293,985 57	9 16	13,201,493 30	84 58	220,012,521 77	175 60
1922	9,264,470 96	302 38	7,118,146 47	46 77	15,382,617 43	129 06	224,130,757 66	180 76
1923	11,128,365 50	383 34	9,301,564 98	91 80	20,429,930 48	185 64	232,816,355 39	191 64
1924	12,551,375 74	445 14	10,635,170 26	119 29	23,186,546 00	224 19	245,058,535 82	206 97
1925	15,125,499 39	556 95	11,321,789 51	133 45	26,447,288 90	269 78	261,444,876 11	227 50

\* Decrease.

NOTE — The startling decrease of delinquencies in 1919 was due to the "writing off" as uncollectable of over \$6,000,000 of personal taxes in Cuyahoga County.

Using 1913 as a base year for comparison purposes the rate of increase for delinquencies has exceeded that for taxes levied consistently for the period 1919-1923 inclusive. As explained the apparent decrease in amount of delinquencies in 1919 was due to "writing off" a huge sum as uncollectible and marked no improvement in the general situation at that time. The rate of increase in delinquencies since 1919 is shown to be much more pronounced than before even with a constant factor of over \$6,000,000 thrown out of consideration. In fact the decline in the rate of increase of total delinquencies for a short period was apparent rather than real. It may be argued that it is not proper to compare the cumulative tax delinquency figures with those of the annual tax levies because one is a cumulative figure and the other is not. However, delinquent taxes are subject to collection under the law within a definite period of time. Collections on past delinquencies offset current delinquencies so that the figures tend to become those of net increase year by year, since collections on past delinquencies offset to the extent of these amounts the new delinquencies as they arise. There are, however, a great many delinquent taxes, particularly those on personal property, which are never collected. This is quite as significant as the fact that new delinquencies are growing in amount.

**Delinquent Personal Property Taxes.** — The increase in delinquencies upon personal property has been particularly pronounced since 1919. At that time the "slate" in large measure was "wiped clean" by the cancellation of over \$6,000,000 of unpaid items in Cuyahoga County. Since 1919 total delinquencies on personalty have increased from \$2,449,000 to \$11,321,000 in 1925 or almost \$9,000,000. During the same period total delinquencies on real property increased \$10,744,000. The total value of all personal property assessed for taxation constitutes only about one-third of the total grand duplicate in 1925 or \$4,156,504,040. Yet the total delinquencies on personal property in 1925 were but \$3,804,000 less than the total delinquencies on real property, which represents about two-thirds of the entire grand duplicate. Further, the increase of total personal property delinquencies from 1919 to 1925 was but \$1,924,000 less than the increase of real property delinquencies for the same period. This is indeed an astonishing if not to say a dangerous situation.



The growth of delinquencies on personal property is no doubt due to at least two causes. (1) Of first importance is the rising curve of governmental expenditures. Under the stress of constantly increasing governmental costs the general property tax tends to disintegrate more rapidly than would otherwise be the case. It becomes increasingly difficult to collect taxes levied upon personal property. In the case of much of such property there is no basic security, as in the case of real property, for the ultimate payment of taxes. After taxes are duly levied upon personal property there is much opportunity for the dissipation of the property, removal of it from the taxing jurisdiction, change of residence of the owner or bankruptcy. So that if the owner does not voluntarily pay the taxes due at the regular collection periods, collecting officers are confronted with a difficult problem.

While there has been a marked acceleration in the rate of increase of delinquencies upon personal property it is not believed that there has been any general and widespread deterioration in collection administration throughout the state. Rather the increasing burden of governmental costs renders it more and more difficult to collect taxes levied at progressively higher rates upon personal property much of which is either unproductive or yields a rather fixed return. Increasing delinquencies upon personal property are a symptom of the gradual collapse of the general tax as a revenue measure during an era of mounting governmental expenditures.

(2) There has been no widespread and determined effort upon the part of collection officers to "gear up" their collection machinery to cope with the increasing delinquencies. As has been said, it is not thought that collection officers have relaxed their efforts during the last decade. On the other hand, so far as is known, there has not been any general and concerted movement to so strengthen the administration of tax collection as to minimize — so far as may be possible — the effects of the breakdown of the general property tax. Without continually making collection administration more rigorous, increasing delinquencies of personal property taxes may be expected. This will be particularly true in jurisdictions where the assessment of personal property is relatively well done.

**Existing Law Providing for Collection of Delinquent Taxes.—**

*Personal Property.*—In the case of delinquent personal property taxes the law providing the means and procedure by which such delinquencies shall be collected is fairly adequate. In brief, the statutes provide that in case of personal property taxes not paid during the first collection period (the December collection) the whole amount of the tax shall be due and delinquent and shall be collected by distress by the county treasurer (See Sec. General Code 2656). If the treasurer is unable to collect by distress he may apply to the clerk of the common pleas court and the clerk shall cause notice to be served upon the delinquent taxpayer requiring him to show cause why such tax should not be paid. In the absence of any sufficient cause the court shall issue a rule against the delinquent for the taxes and costs, which rule shall have the force and effect of a judgment at law.

Section 5694 General Code provides that after each August tax settlement the county auditor shall prepare a delinquent personal property duplicate showing all personal property taxes remaining unpaid on the treasurer's books with a penalty of 10% added to the tax and this duplicate shall be delivered to the treasurer not later than September 15th.

Section 5695 provides that the treasurer shall forthwith collect such taxes and penalties by any means provided by law, which are:

- a. By distress as authorized in Section 2658 General Code.
- b. By applying to the Clerk of the Courts for a rule as authorized in Section 2660 General Code.
- c. By civil action as authorized in Section 5697 General Code.

While the legal powers of the treasurer are undoubtedly sufficient for the instituting of a vigorous policy they can be clarified and strengthened to some extent. While the county treasurer is empowered to proceed to collect where no payment is made at the first collection period ordinarily no steps are taken until after the delinquent duplicate is prepared some nine to twelve months later.

**Remedies Suggested.**—Of prime importance in the collection of delinquent personal property taxes is the time element.

Every day that such taxes are allowed to go unpaid after they are due, adds to the likelihood that they will never be actually collected. Since there is no basic security as in the case of land promptness of action is not only desirable but imperative if the growth of delinquencies is to be checked.

It is therefore suggested that the existing laws should be amended to the effect that personal property taxpayers are granted the privilege of paying these taxes in two installments on condition that one-half the tax is paid during the first collection period and that where one-half is not paid during the first collection period the whole amount shall automatically become due and delinquent with a penalty of 10% added by law, without such penalty being dependent upon any action by the treasurer or auditor. It should be further provided that immediately after the close of the first collection period, without waiting for the February tax settlement a delinquent list and duplicate be prepared of all delinquents on the current duplicate for the use of the treasurer in proceedings against delinquents promptly. This list, together with all unpaid items of prior years previously certified as delinquent, should constitute the duplicate upon which the treasurer is to proceed promptly.

The chief advantage from this change in legislation would be to advance the time of proceeding against delinquents some nine months and would automatically penalize non-payment of the first half as required by law. During this nine months period each year the ability of many delinquents to pay the tax is seriously impaired and undoubtedly large amounts could be collected early in this period which cannot be collected nine months or a year later.

It is common knowledge that the chance of collecting unsecured debts unpaid when due, as is the case of delinquent personal taxes, decreases as time passes. Therefore, it is a matter of common sense to advance the time of proceeding against the debtors to the earliest date possible.

Another important advantage which could accrue from the proposed change would be to furnish a basis for better coordination between assessing and collecting personal property taxes. Under the present tax administration procedure personal property assessments are made each year and incorporated into the current

tax duplicate several weeks or months before any action is taken to collect or to determine the collectibility of delinquent items on the prior duplicate. There are plenty of examples where the same parties or concerns are delinquent for two or more successive years and where it finally develops that the taxes are not collectible by the process employed. It would be highly desirable if most items of delinquent personal taxes could be classified and disposed of each year before the next year's duplicate is made up, thereby reducing the possibility of placing items of taxes on a tax duplicate against parties from whom taxes levied the previous year could not be collected. This coordination would be entirely possible under the procedure which would result from the legislation proposed and would enable the auditor's office to avoid assessing personal taxes against any parties from whom collection of taxes on the preceding duplicate could not be enforced. This would naturally tend to cut down the amount of delinquent taxes in total by eliminating at the outset many items which are not collectible. There is often occasion for a difference of opinion between the treasurer's office and the auditor's office as to the collectibility of personal taxes from various parties and under the proposed procedure these conflicting opinions could be compared and reconciled if possible before including the parties, concerning whom the difference of opinion exists, upon the next tax duplicate.

**Legislation should be Secured giving Authority to write off Uncollectible Items.** — It is recommended that legislation be secured to provide a legal method of writing off the books and eliminating items about which there is no question as to uncollectibility. For example, where the delinquent has gone through bankruptcy or insolvency proceedings and an amount received in settlement of the claim the remainder should be written off. Where concerns have gone out of business and no property can be found and in cases where delinquents cannot be located by investigation, these items should be written off the books. It is suggested that the power to write off and cancel such items upon the written recommendations of the treasurer and auditor be given to a board composed of the auditor, treasurer, and prosecuting attorney. In the establishment of such a board authority should be given each member to be represented in meetings by



chief deputies, and all items of taxes cancelled should be published in the newspapers. The idea is that this board would decide whether apparently uncollectible items would be written off or reduced to judgment by suit. There is nothing to be lost by eliminating uncollectible items from the record and the power to do this should be lodged in local authorities who can acquaint themselves with the circumstances of each case.

This plan will provide for practically an annual clean-up of delinquent accounts by reducing them to judgment or writing them off. While there will be items which cannot be cleared up from one August settlement to the next, the tendency will be to put it up to the treasurer to file suit or recommend to the reviewing board that items be cancelled and written off. The items which are not reduced to judgment or cancelled would be carried forward on the cumulative delinquent duplicate.

**Delinquent Real Property Taxes.**—The increase in delinquencies of real property taxes as well as the aggregate amount which these delinquent taxes now total are matters which should challenge the attention of all thoughtful citizens. The percentage of increase over 1913 of 556.95 per cent and a total of \$15,125,499.39 in 1925, is astonishing. It is to be noted that the rate of increase has been particularly rapid since 1919, as is also the case with personal property delinquencies.

**Causes for the Increase.**—It can scarcely be doubted that rapidly increasing tax levies have an effect upon the amount of and rate at which delinquencies increase. As has been pointed out, the rate of increase for delinquencies has been exceeding that for taxes levied for some time. This has been particularly pronounced since 1919. Compared with that year there has been a tremendous increase in the amount of taxes levied annually. The rate of increase for total delinquencies upon real property is even more rapid. As the tax burden on real property increases it may be expected that delinquencies will increase. Some land is near the margin of effective productivity. As tax burdens increase more and more of such land will be unable to bear this additional cost of production and taxes will become delinquent. It can safely be said that rapidly increasing governmental expenditures constitute one direct cause of increasing delinquencies. The

amount of these delinquencies and the rate of their increase are very disturbing facts.

**Methods Provided for Collection of Unpaid Real Property Taxes.** — The methods of procedure already outlined for the collection of overdue personal property taxes apply likewise to overdue real property taxes. Section 2658 General Code provides that when taxes are due and unpaid the county treasurer can proceed by distress. This procedure is applicable to real property as well as personal property taxes. (See Section 5678 General Code.) Section 2660 General Code provides that the treasurer may apply for a court rule which, if granted, has the effect of a judgment at law and may be enforced by attachment or execution or such process as the court directs. Section 2667 General Code provides that the county treasurer, when requested by the auditor of state, shall proceed against delinquents by civil action for the sale of the premises involved in the way mortgage liens are enforced.

A curious provision of law, enacted in 1917, restricts the state in enforcing the lien which it has upon lands certified as delinquent. Section 5713 General Code provides that where taxes have not been paid for four consecutive years the state shall have the right to institute foreclosure proceedings thereon. Section 5717 provides: "No proceedings in foreclosure, under this act, shall be instituted on delinquent lands, unless the taxes, assessments, penalties and interest have not been paid for four consecutive years." These two sections place an unusual limitation upon the state in enforcing the collection of real property taxes certified as delinquent. It is not understood, however, that these sections affect the methods of collection of delinquent taxes which the statutes give to the county treasurer. This officer has effective power under the means described to enforce the collection of delinquencies.

It would seem that the problem of coping with increasing real property tax delinquencies is largely an administrative one. The county treasurer has adequate authority at his command. But vigorous administration is required. Without it delinquencies most certainly will continue to increase and if the burden of the general property tax continues to increase they will increase somewhat despite vigorous collection administration.

The Committee has made some study of collection procedure in other states, has given some consideration of the case which could be made for a tax sale law, but it has not undertaken any general revamping of delinquent tax collection procedure. It does believe that there are no sound reasons for the provisions restricting the use of foreclosure proceedings by the state contained in Sections 5713 and 5714 General Code. This restriction should be removed, giving the state authority to enforce its lien as soon as the taxes, assessments, and penalties have not been paid for two consecutive semi-annual taxpaying periods.

## SECTION IV

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### CHAPTER IX

#### THE STATE AID SYSTEM FOR SCHOOL DISTRICTS

### CHAPTER X

#### REORGANIZATION OF THE SCHOOL DISTRICT SYSTEM

### CHAPTER XI

#### OHIO'S INTEREST IN SCHOOL HOUSING

### CHAPTER XII

#### ENTRANCE REQUIREMENTS TO STATE UNIVERSITIES AND COLLEGES





## CHAPTER IX

### The State Aid System for School Districts

**The State Aid System.**—Ohio, along with many other states of the Union, has a system of state aid for its public schools. Such systems are based upon the principle that the state has a responsibility for affording to every child a certain educational opportunity which can be defined in terms sufficiently definite to secure its realization in practice.

The main features of the Ohio law (see General Code, Sec. 7595 et sequitur) embrace:

1. The creation of a "state educational equalization fund for the equalization of educational advantages throughout the state."
2. The crediting to the fund of the proceeds of any taxes and other revenues which are by law applicable to it.
3. Administration of the fund by the state director of education.
4. Procedure by which local boards of education may obtain state aid contributions when certain conditions are met. These are:
  - a. The district in question must be levying a tax rate of at least 8 mills for current expense purposes and a total rate of at least 9.5 mills for all school purposes. In districts having a tax valuation of less than \$2,500 per child enumerated and a debt service levy in excess of 3 mills such excess may be included within the aforesaid 8 mills upon authorization of the director of education. Such debt service rate so included shall never exceed 3 mills however.
  - b. Assurance by the state tax commission, where necessary, that the property of the district is not undervalued for taxation and the making of a re-

- valuation upon order of the tax commission where its investigation so dictates.
- c. Compliance by the district with all orders made by the director of education for any adjustments or changes in its school policy and administration, for the execution of which the local board can employ any power vested in it by law. Such orders may include the requirement that where a district is not levying the minimum rates necessary to participate in the state aid fund the additional levy necessary shall be submitted by the local board to the voters. In cases where the local board fails to carry out such an order or the levy is defeated at the polls the director of education can authorize the county board of education to make the necessary levy forthwith.
5. Provision that the director of education shall, after all of his orders are complied with by the local district, ascertain the probable amount necessary to supplement the revenue of the local district in order to enable the local board to conduct the schools of the district, and shall certify such amount to the auditor of state, after which he shall from time to time draw upon the auditor for the sums actually needed by such district.

**The 2.65 Mill Levy.** — In addition to the state aid law just described, there is provided by law a uniform levy of 2.65 mills in all school districts of the state. In city and exempted village districts the total proceeds of the levy are distributed among such districts according to the tax collected in each district. In the case of rural and village districts a formula for distribution is set up. The formula provides that the money shall be distributed as follows:  $37\frac{1}{2}$  per cent. of the salary of each teacher or educational employee paid not less than \$800 per year or more than \$900; 50 per cent of personal service expenses incurred in transporting pupils; and the remainder, if any, according to the ratio which the aggregate days of attendance of pupils in each district bear to the aggregate days of attendance of pupils in the entire county outside of exempted village and city school districts.

**Operation of 2.65 Mill Levy in Practice.** — A study was made of the operation of this levy in 22 representative counties.

It is obvious that under the formula prescribed, each district will either gain or lose if the distribution is made according to the terms set up in the law. This, of course, is the intent of the law. It is supposed to serve as an equalizing measure as applied to rural and village districts, and its justification rests in the extent to which this is accomplished.

The first hand investigation made in the 22 counties revealed pronounced diversity of administration. To the extent to which there is lack of uniformity in administering the law there is failure to carry out its intent.

In considering the actual results of the distribution of the levy it would appear that the scheme of distribution works to the advantage of village districts. For example, in the year under observation 95 of the 118 village districts in 20 counties, or 81 per cent., showed a net gain. In no county studied did more village districts lose than gain.

Two very important considerations are involved in viewing the efficacy and the value of the law: (a) to what extent do the proceeds of the levy change hands as between districts under the formula set up and (b) does the redistribution in practice tend to equalize the financial ability of the school districts concerned to support their schools?

In answer to the first question the 1923-24 figures showed that in Lake County out of a total of \$218,000 collected under the 2.65 mill levy, \$95,000 or 44 per cent was shifted to districts other than those in which it was collected. In Jackson County, only 8 per cent. of the total amount collected was shifted. In Lake County the \$95,000 made up 23 per cent of the total sum required for current operating expense in the districts gaining through the distribution. In Gallia County the corresponding percentage was 4.4. In the 22 counties studied the average percentage of the money changing hands was about 17. The *variation* in the different counties is the important matter, however. This, as was explained, was rather pronounced, and it is submitted that no state-wide uniform levy, the proceeds of which are distributed in accordance with this or a similar formula, would avoid such wide differences.

From the standpoint of equalization it was found that in general the richer districts lose, while the poorer districts gain,



but that the amounts thus transferred were not sufficient for the equalization of reasonable minimum educational costs.

**The 2.65 Mill Levy and the Support of a State Standard.**

—Whatever may have been the aims of the law establishing the 2.65 mill levy it is necessary that its operation be examined and judged as to its bearing upon the support of a state standard of education. Does it operate to minimize the problem which the state encounters in the enforcement of a given minimal standard throughout its domain? If it does not minimize the state's problem one must hunt for other advantages in its results to justify its continuance. In order to assist the state it must operate to equalize the ability of the school districts within a county to support the state minimal standard with a less amount of subvention from the state than would otherwise be required.

Judging its results from this viewpoint it is granted that it does equalize to some extent the ability of village and rural school districts within a county to support a minimal standard. However, it often fails to afford enough money to the districts most in need and on the other hand does in various cases give to districts which are not in need. In other words, in distinctly poor counties it does not operate materially to affect the amount of state aid required because it is in itself not a high enough rate to be significant. It is therefore in such counties, generally speaking, a useless piece of labor. In rich counties it often does not do away with state aid in specific districts in which subventions would be done away with if the county were treated as a unit. It is only in counties that are on the border line as to ability in supporting the state standard that the levy is of particular significance. In such counties it can operate to equalize so as to reduce materially the number of districts requiring state aid. Such "border line" counties are but a minority, so that it may be said that from the standpoint of assisting in the support of a state standard the 2.65 mill levy is of no particular importance in the majority of counties.

It is to be pointed out that under present statutes there is a maladjustment between the making of the annual tax levy budget and the operation of the 2.65 mill levy. The budget must be adopted by July 15th, whereas it is impossible for the local school district to calculate at this time what it will receive from

the 2.65 mill levy during the following fiscal year. This feature of the operation of the levy furnishes another valid ground of criticism.

**The operation of the State Aid System.** — It is now pertinent to discuss the operation of the state aid system itself after showing the part which the 2.65 mill levy plays in the support of the public school system.

The total contributions of the state to local school districts have increased rapidly during recent years. The following table summarizes this growth.

TABLE XX  
EDUCATIONAL EQUALIZATION FUND DISBURSEMENTS  
(Total by years)

<i>Year ending Nov. 14 (a)</i>	<i>Amount</i>
1908 .....	\$2,647
1909 .....	4,589
1910 .....	19,344
1911 .....	19,803
1912 .....	38,433
1913 .....	36,479
1914 .....	78,776
Nov. 14, 1914 to June 30, 1915.....	107,227
<i>Year ending June 30 (b)</i>	
1916 .....	\$156,795
1917 .....	181,566
1918 .....	173,830
1919 .....	423,339
1920 .....	611,227
1921 .....	891,375
1922 .....	1,310,456
1923 .....	3,224,214
1924 .....	2,641,541
1925 .....	3,528,521
1926 (c) ----	2,497,931

(a) 1908-1914—"Amount paid to weak school districts."

(b) 1915-1921—"State aid to weak school districts."

1922-1926—"Educational equalization fund."

—From Annual Reports of Auditor of State.

(c) The amounts of state aid annually disbursed are not an exact equivalent of the amounts annually allotted by the state department of education. In recent years it has been the practice to pass supplementary appropriations in the legislative years making good any excess of the allotments over the sums previously appropriated. This practice accounts for the marked fluctuations in disbursements in the last four years.

It will be noted that since 1919 the trend has been sharply upward with the present total cost to the state approximately six times that of 1919.

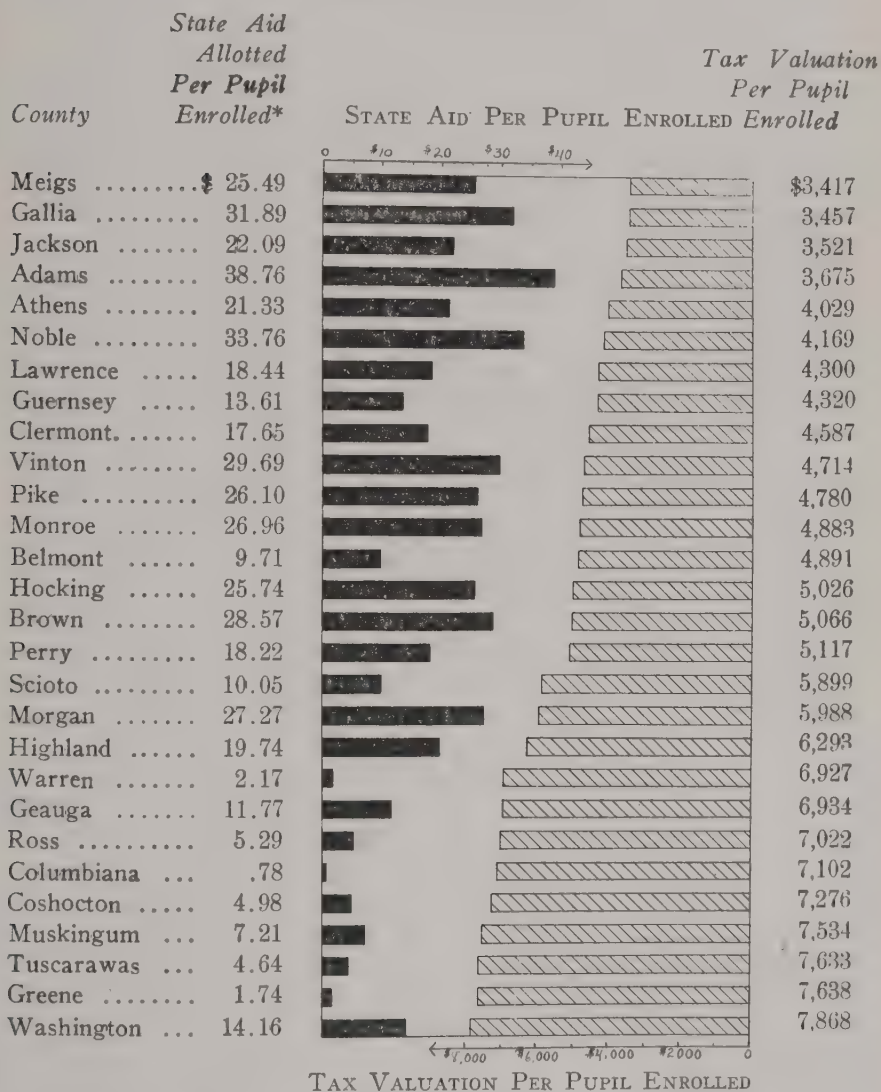
Examination shows that the rural and village districts are generally speaking the beneficiaries of the present system. In fact in 1923-24 only 6 city districts and 3 exempted village districts received aid out of a total of 612 districts to which contributions were made. These 612 districts comprised 39 per cent. of all districts in the counties affected and 27 per cent. of all school districts in the state. The small number of city and exempted village districts participating was attributable in part to the restriction then in the law that no such districts having a tax valuation of more than \$4,000 per child would be eligible to state aid.

**Defects of Present State Aid System.** — The present system of state aid is open to serious criticism. In the first place, in failing to make adequate use of the county as an agency for the equalization of school costs, the system imposes an exceedingly difficult administrative task upon the state department of education. Separate consideration must be given to the needs of each district which applies for aid. To make a thorough examination of the case of each such district would require an administrative force well in excess of that now available to the state director of education. In recent years the number of districts receiving aid has varied as follows:

1922-3 .....	594
1923-4 .....	612
1924-5 .....	700
1925-6 .....	652

It is questionable whether a system should be allowed to continue under which the department of education is to be held responsible for disbursing several million dollars annually to some 650 school districts without the facilities for gaining full first hand knowledge of conditions. An adequate administrative force should be provided or a system devised that will obviate the necessity for dealing with individual districts. Such a system can be based upon the use of the county as an equalizing unit.

## GRAPH XII

STATE SCHOOL AID AND TAX VALUATION PER PUPIL  
ENROLLED, 1925-6TWENTY-EIGHT COUNTIES HAVING LOWEST VALUATIONS  
PER PUPIL ENROLLED

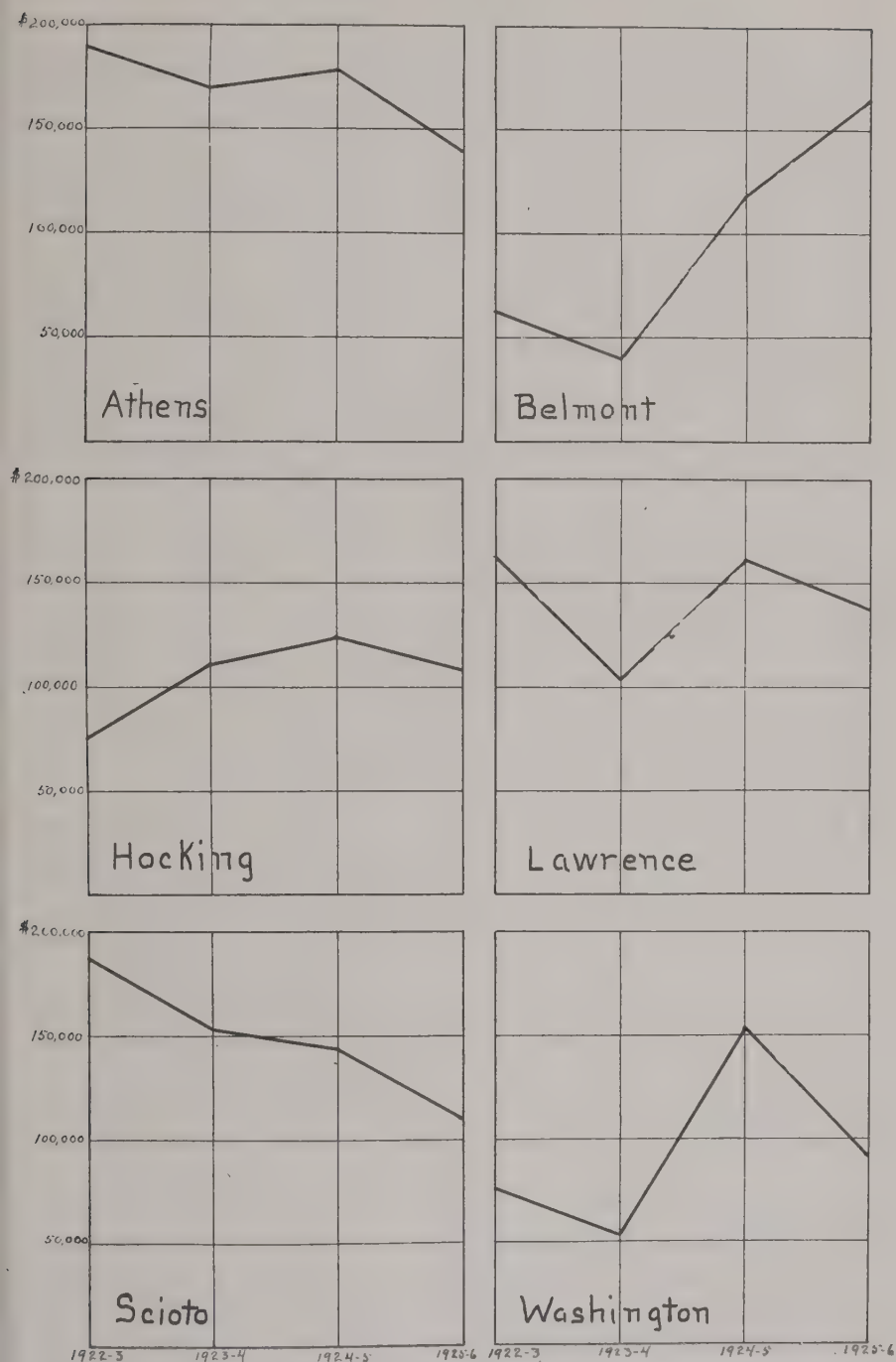
\* These figures are the amounts allotted for the year 1925-6, a part of which were actually paid in 1926-7.



A second criticism of the existing system is that it necessitates the payment of state aid to districts in counties which are amply able to provide for their own schools. It is not without significance that such wealthy counties as Hamilton, Lake, Mahoning and Montgomery are regularly represented on the state aid list. In fact, in 1925-26 there were no less than 19 counties, containing state aid districts, which nevertheless had financial ability for the support of education greater than that of half of the counties of the state. This condition arises from the failure adequately to utilize the county as an equalization unit. It reflects of course the failure of the present 2.65 mill school levy as an equalization device and in part indicates a poorly planned districting system also.

Under a satisfactory system of state aid it would seem that the amount of aid should bear a fairly definite relationship to the wealth of the area affected, and that sections having substantially equal ability to finance their schools should receive approximately similar treatment in the apportionment of aid. It can scarcely be said that such is the case in Ohio, as an examination of Graph XII will indicate. Though nearly equal in valuation per pupil, the four poorest counties varied from \$22.09 to \$38.75 per pupil in the amount of aid awarded them by the state in 1925-26. To cite another example, Monroe County with an average valuation of \$4,883 per pupil was granted an amount equal to \$26.96 per pupil, while Belmont County with a valuation of \$4,891 per pupil was awarded only \$9.71 per pupil. Obviously, under the present system the amount of state aid received bears but a very rough relation to the tax valuation available for school support, though it must be borne in mind that tax valuations in Ohio cannot yet be regarded as a very accurate measure of taxable wealth. Nevertheless, they are the only measure that is available.

Furthermore, the amount of state aid granted is by no means a constant or predictable sum. An examination of the amounts paid to school districts in the principal state aid counties in the last four years shows wide variations from year to year. In some counties the amount of aid has risen sharply, in others decreased materially; and in some it has varied considerably both upward and downward. (See Graph XIII.) Local school finance is also complicated by the fact that the tax rate of the



GRAPH XIII

AMOUNT OF STATE AID PAID TO DISTRICTS IN SIX IMPORTANT STATE AID COUNTIES, 1922 TO 1926

local district is fixed before any assurance can be given as to the amount of state aid upon which it may depend. Under the circumstances the management of local school finance is difficult, to say the least, and planning is precarious. In so far as possible a system of state aid should be so devised that local officials may know with reasonable accuracy the amounts of aid upon which they may count in making up their budgets.

There is need for better coordination between the time that applications for state aid are to be made and the budget making period of the local district and the state as well. It is to be noted that under recent legislation the calendar year has been fixed as the fiscal year for the state and all local governments. Tax levying and budget planning are related in the law to the new fiscal period. The applications for and the granting of state aid should be likewise adjusted to the calendar year.

Another administrative defect should be touched upon and that is the failure of Section 7595-2 to accomplish its purpose. This section provides for the director of education calling for the advice of the state tax commission to determine in specific cases whether the taxable property of certain districts is on the duplicate at a reasonable portion of its value. The tax commission when such requests have been made has stated that it had no staff assistance to conduct the necessary investigations. It has been unable therefore to render such service. It should be obvious that the integrity of a state aid system cannot be maintained if certain districts secure such aid because they are successful in keeping the property of the districts undervalued for taxing purposes. Securing state aid by such method amounts to "sharp practice" because it unfairly deprives needy districts of assistance which justice and fair dealing would accord them.

Local districts cannot be left entirely to their own devices in these matters. Some disinterested agency of the state should be equipped to protect the state and the really needy districts against such a practice. The law quite logically has designated the tax commission as this agency and clothed it with necessary power. The effective exercise of this function necessitates an organization adequate to take care of the requests made by the director of education. Despite anything the legislature may be able to do, various districts will resort to this de-

vice for securing an unfair advantage unless some supervisory agency is in fact equipped to prevent such an abuse. "Ham stringing" the tax commission might well cost the state treasury hundreds of thousands of dollars through the granting of state aid to districts which, if property was properly appraised, could support the minimum standard without financial help.

The last general assembly passed a reappraisal law (H. B. 130) under which appraisals have been going forward in many counties. What the results may be is not yet known, but they may have considerable bearing on the amount of state aid required under the present system.

**Defects Summarized.** — Criticisms of the present system of state aid may be summarized as follows:

1. Basing state aid upon a determination of the needs of from 600 to 700 individual districts annually imposes a very difficult task upon the state department of education, for which it is not adequately equipped.
2. Many well-to-do counties now contain school districts receiving state aid which would be unnecessary if the county were treated as a unit for state aid purposes.
3. The amounts of state aid apportioned do not bear a sufficiently close relation to the taxable wealth of the districts aided, and assessed valuations do not as yet provide as satisfactory an index of local financial ability as is required.
4. The amount of state aid granted to districts in the principal state aid counties varies widely from year to year, making local financial planning difficult.
5. Under the present system there is a maladjustment between the period at which applications for state aid are made and the budget making period of both local districts and the state.

**Underlying Principles of State Aid.** — In an effort to formulate a satisfactory system of state aid, certain principles should be kept in view. In the first place, a reasonable minimum standard of education must be financed throughout the state. Fundamentally, such a standard should be defined in terms of educational factors, but it is at present impossible to set up complete specifications of this type. For the immediate future,



therefore, the minimum standard must be defined in terms of the financial support normally necessary for the maintenance of the desired educational offering.

In the second place, the system of state aid should be as definite and simple of operation as possible. The minimum standard of support should be prescribed in sufficiently specific form so that it can be readily and accurately determined, and the method of providing the necessary revenue therefor should be such that the obligations of both state and local governments can be easily and definitely computed. To achieve this object in dealing with the 2400 school districts of the state, it is apparent that the computation of the minimum standard of support and of the amount of state aid must be based upon definite rules or formulae.

A third principle which deserves attention is that the primary responsibility for the support of a minimum standard of education rests upon local government. A county whose tax paying ability exceeds that of the state as a whole cannot with good grace seek state aid for its poor school districts, though such is now the case. Not only is it fair that the adjoining region, which is most closely affected by educational conditions, should bear the first responsibility for assisting the poor district, but such provision is essential if reasonable simplicity in the administration of state aid is to be attained. When, however, a county is unable to maintain the required minimum standard throughout its area without excessive effort, the state must naturally make good the deficiency.

Finally, the state should be protected against a needless volume of aid resulting from inefficient local school organization. If in a given locality the cost per pupil of a minimum educational offering is high because of poor school organization, that region should not be allowed to unload the cost of its own inefficiency upon the state.

**Proposed Plan for Support of a State-wide Minimum Standard.** — While no system of state aid yet devised is likely to be entirely satisfactory, the following plan is suggested as being administratively feasible and reasonably designed to accomplish the ends desired. The plan guarantees a minimum standard of school support in all districts as follows:

1. An average of \$900 per elementary teacher and of \$1200 per high school teacher actually employed; the number of teachers not to be less than one for each 40 pupils enrolled nor more than one for 25 pupils unless specifically authorized by the state director of education.
2. An amount equal to 25 per cent of the allowance for teachers' salaries to be used for miscellaneous current expenses.
3. The cost of transportation and board of pupils in so far as required by the law.
4. The cost of tuition paid to school districts in adjoining counties.
5. Tuition received from districts in adjoining counties to be deducted.

A minimum school budget consisting of the above items would be prepared annually by the county superintendent of schools for districts within the county district and by the superintendent of each city and exempted village district. These budgets would be reviewed and approved by the county auditor and by the state department of education. Such budgets would of course provide only for a minimum standard of school operation and maintenance under normal conditions. They are not intended to cover debt and outlay costs, nor are they expected to meet the full demands of districts which can afford a higher level of educational offering. In so far as current operation is concerned, however, the factors included are believed to afford reasonably adequate support for an acceptable minimum educational offering under prevailing conditions. Furthermore, they possess the merit of being concrete and ascertainable, which is highly desirable from the standpoint of administration.

Since the responsibility for the support of public instruction rests jointly upon the state and the local government but in the first instance upon the latter, the plan associates the state and the county in the financing of the minimum standard. In all cases in which the amount required to support the prescribed standard throughout the county could be raised by a county-wide levy of not to exceed 5.5 mills, the county must meet the entire cost. In all other cases a county school tax of 5.5 mills would be imposed and the remainder needed to finance the minimum standard

would be borne by the state. In tentatively fixing 5.5 mills as the limit of the county school levy, a rate has been selected which avoids the necessity of increasing the state expenditure for school aid and bears a fairly close relation to the irreducible school tax of 4.65 mills (4.85 mills in municipalities having no township taxes) now being levied in most school districts. At the same time it is not so high as to impinge unduly upon other necessary levies within tax limitations. It should of course be noted that the rate of 5.5 mills is but tentative. Upon fuller examination it may be found that a somewhat lower rate will be sufficient.

In counties not receiving state aid the county school levy would vary in accordance with differences in taxable wealth and in the cost of the minimum standard of school operation. Based upon the conditions of 1923-24, the last period for which sufficient data were available at the time of this study, the county school tax rate would range from about 2.5 mills in the richest counties to 5.5 mills in the state aid counties. In addition to this county levy, each school district would be required to levy a tax sufficient to meet its own debt charges, and might levy such further taxes for school purposes as it desired subject of course to the tax limit laws.

While the entire cost of the minimum standard in excess of the 5.5 mill county levy would fall upon the state under the plan, the state would, nevertheless, be safeguarded against unwarranted costs resulting from inefficient local school organization. Such protection arises from the provision that the number of teachers to be considered in computing the cost of the minimum standard shall not exceed one for each twenty-five pupils unless specifically authorized by the state.

The important departures of the proposed plan from the existing scheme are the utilization of the county as an equalizing unit instead of the individual district, and the establishment of definite criteria for determining the cost of a minimum standard and the amount of state aid required in its financing. By placing upon the county the initial responsibility for the assistance of weak school districts, a partial equalization would be accomplished without state intervention, and the flow of state aid would be concentrated upon those counties having the greatest need. Many counties whose taxable wealth per school child exceeds the average of the commonwealth as a whole would cease

to draw upon the state treasury. In fact, the number of state aid counties, 60 in 1925-26, would probably be cut nearly in half. At the same time the state would be relieved of the necessity of dealing directly with several hundred separate districts in the administration of school aid. In addition, more adequate assistance would be rendered to those counties which are in reality poor, while the total cost to the state would not be increased. In so far as can be estimated, an expenditure of \$3,000,000 would be sufficient to provide the necessary state aid.

**The Plan and the System of Tax Limitations.**—It might be contended that the theory of a compulsory minimum standard of education is inconsistent with the theory of tax limitation. However, under the proposed plan we can see no conflict between the two systems. At the present time a school tax is levied within the fifteen mill limitation in every district in the state, which in practically no case is less than 4.65 mills and in country districts is seldom less than 5.65 mills. In connection with the new system of state aid a definite minimum of 5.5 mills within the 15 mill limitation should be set aside for school levies including the county school levy. In cases where the county school levy is less than 5.5 mills the local district would be entitled to the difference. Of course where the limits permit it, the local districts could also secure additional taxes within the limitations, and the people can always vote additional levies, outside of limitations. The only districts where there might be a serious difficulty in securing the county school levy within the limitations would be those in which the sinking fund and interest levies within the limitations are excessive. This situation should be taken care of by authorizing the county budget commission with the approval of the state tax commission to place outside of limitations debt levies for all purposes where such debt levies exceed say 2 mills within the limitations. Under the provisions of the Krueger Act debt levies can never accumulate again in such volume within the tax limits, and if the situation is taken care of in a few districts, there will be no further conflict.

The Committee is firmly convinced that it is a part of the state's function to provide an education for every child in the state and that no child should be deprived of an education by reason of the poverty of the district in which he lives.



## CHAPTER X

### Reorganization of the School District System

**Small Districts.**—Ohio is now divided into more than 2400 school districts, varying in enrollment from less than ten to more than 150,000. Among these districts are 210 which contain only a single one-room school. In these cases we have the absurd situation of a board of five members being elected for the administration of a one-room building and the appointment and direction of a single teacher. In several hundred other districts and in a few counties as a whole the number of school board members actually exceeds the number of teachers employed. In approximately 500 districts the number of children of school age is less than 100. Such districts are obviously too small to permit of efficient school organization and in particular to provide for the maintenance of secondary education. Over a considerable part of its area Ohio is now attempting to supply high school education with an administrative unit which was laid out a generation or more ago for the purpose of furnishing elementary education through the medium of the one-room school. Furthermore, it is quite apparent that the district which is inadequate in point of numbers is often likewise deficient in taxable wealth for the support of a modern standard of education. This division of rural areas into small school districts has greatly widened differences in taxable wealth behind the school system and increased the volume of state aid necessary for poor districts.

Ohio in 1914 revised its entire school code and attempted to establish a county school unit. All parts of the county with the exception of cities and of villages of 3,000 to 5,000 population were to be brought under one administrative and supervisory control. As one factor of this organization the county board of education was given the right to determine school district boundaries. Various other powers relating to nomination of teachers and principles, to determining course of study, etc., were delegated to the county board. Local boards were given certain rights in regard to the appointment of teachers, determination of particular curricula and certain minor duties.

## Illogical Districting

Since 1914 the school code has been amended until the powers of the county board in regard to districting and to control of school policies have been vitiated to such an extent that many county boards today have little real power. Local jealousies have arisen among districts within the county so that it has been impossible to build a logical system.

A study\* was undertaken to determine accurately what conditions have arisen in Ohio due to present districting laws. The first step in this investigation was the preparation of maps showing the actual districting existing in each county of the state. A tremendous amount of labor was involved in this task as about two years of almost continuous effort are represented. It was found in some counties that no maps had ever been prepared showing the local district boundaries. County superintendents were usually quite willing to co-operate, but often personal first-hand investigation was required to secure all the necessary information upon which to prepare an accurate district map. At last, however, maps for all counties were finished. A set of these is available to this Committee and to the General Assembly. The maps should be of the greatest importance to anyone interested in the subject matter of this chapter.

Unfortunately this master set of 88 maps is so large that it cannot be reproduced for inclusion in this report. A careful perusal of the maps, however, will reveal astonishing conditions. Practically every sort of illogical, haphazard and unequitable local districting is represented. Reference is made in the following pages to a few instances of local districting which for the most part represent undesirable conditions. These instances are selected as being representative of typical conditions of various sorts which with few exceptions might be greatly improved.

1. In Cuyahoga County, Bratenahl evidently should be a part of the Cleveland district.

2. The Vermilion district of Erie County stretches approximately to the corporate limits of Lorain. This long narrow strip includes considerable frontage on Lake Erie, and extensive track-

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\* This study was undertaken by Professor C. C. McCracken of the Ohio State University and his conclusions and recommendations have been incorporated in those of the committee.

age of the New York Central Railroad and the Lake Shore Electric Railroad. Further comment should be unnecessary on this point.

3. In the northeast corner of Fairfield County is a small district with one one-room schoolhouse. This area is poor and the roads are not suitable for transportation. No one wishes to have this area and so it continues to remain an isolated one-room school district.

4. Hamilton County illustrates the fact that small special districts centering around local jealousies are still a vital factor in the administration of Ohio schools.

5. New Richland in Logan County illustrates how a small crossroads village may through local jealousy refuse to combine with large consolidated schools such as are found at Belle Center and Huntsville.

6. Medina County illustrates the effect of a good road as means of transportation. This is shown in connection with the Medina district.

7. Montgomery County illustrates how a small area on an important thoroughfare may refuse to combine with larger areas easily available.

8. Latty in Paulding County is an illustration of how a district carefully follows a railroad presumably for taxation purposes.

9. Putnam County offers several illustrations of so-called "shoe-string" districts. Such districts throughout the state are occasioned by church affiliations, tax valuations and the desire to be affiliated with a certain school.

10. Sandusky offers an illustration of the way in which an inter-county problem may be met. Green Spring, located on the boundary between Sandusky and Seneca Counties, belongs to Sandusky County and draws considerable territory from Seneca County. Old Fort, located in Seneca County, draws territory from Sandusky County.

11. Vinton County affords an illustration where little attention has been paid to consolidation. The old township organization prevails.

12. Wooster Township of Wayne County shows a district that extends at least half way around a city.

13. Wood County in general is a very well organized county. Yet it offers numerous illustrations of the small districts that have failed to join with a larger area. It also affords a striking example (Grand Rapids) of a district that receives a part of the 2.65 levy from another county without having it redistributed through its own county offices.

### **Effects of Existing Districting**

The multiplicity of local districts within the county school district means a multiplicity of trivial duties on the part of the county superintendent. Darke County with 67 local districts<sup>1</sup> furnishes the worst example in Ohio, for here the county superintendent must maintain contacts with 67 boards—68 including the county board—and assist them or direct them in educational and financial matters. It is a well-known fact that needs no particular substantiation at this point that there are in many counties local petty jealousies between district boards and between district boards and the county board. These jealousies mean that the county superintendent must spend most of his energy in avoiding conflicts rather than in building up a real educational program.

In the case of Darke County 67 boards means a total of 335 board members exclusive of five county board members. Each of these men may draw from \$10 to \$20 per year for expenses with an additional \$2 for attending an annual meeting of board members of the county. This means that in Darke County the minimum amount paid to members of district boards will be \$3,350; the maximum amount that could be paid would be \$6,700, exclusive of \$2 per member for attending the annual county meeting of board members. Were each board member to attend and draw his allowance this would add a total of \$670 to the outlay for board members.

The minimum per clerk will be \$100 per year. Were the clerk of each of these boards to receive this amount there would be an expenditure of \$6,700. It is not the purpose of this report to condemn the clerks, but there has been a great deal of comment to the effect that many are inefficient. Figuring on the minimum, Darke County is expending at least \$11,000 per year for

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<sup>1</sup> Now 66.



payment of expenses for local board members and clerk hire. If this were figured on the maximum stated above the county would be expending over \$14,000 for these officials. It is justifiable to raise the question whether the expenditure of these amounts is reasonable in order to gratify local pride. Especially if we were to add the item of waste, due to inaccurate business procedure, often found, the question of the justification of such expenditures would be more doubtful.

### **Location of School Plants**

The study which is presented here in part does not indicate the location of existing school plants. It has time and again been a matter of comment, however, on the part of those submitting information that, due to the irregularity and the illogical arrangement of districts, schoolhouses can be found, in rival districts, within sight of each other. It can also be substantiated that districts have been inclined to urge the building of a first-grade high school even though another first-grade high school is available within a radius of three or less miles. This phase needs to be checked more accurately, but so long as such a condition exists as is shown by the aforementioned maps, there is liable to be an undue emphasis laid upon the establishment of first-grade high schools when such are not warranted by the actual needs of the community. It is one of the points in the future continuation of this study to attempt to arrange a community of communities in those counties where the superintendents are willing to engage in such studies.<sup>1</sup> The purpose is that in each community there might well be an elementary school while in the community of communities there might be a high school of probably a six years' course of study. With the existence of small districts and petty jealousies, the logical placing of high schools to serve larger areas is entirely out of the question.

### **Ability of County Board Members**

Much has been said in the past few years concerning the lack of ability of county board members as compared with city board members. The same point has been emphasized in regard to local board members in rural areas. Because of this criticism of the ability of the board members to conduct the affairs of

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<sup>1</sup>Such a study is now being made in Allen County.

the schools, which the writer considers unfair, Mr. Charles Hoel of Bexley has been making a study during the past year of the qualifications of the county board members of Ohio for the duties which they have to perform. Mr. Hoel's study of county board members is complete in the form of a master's thesis in the Ohio State University. It indicates that the great majority of county board members are well able to perform the tasks connected with their positions.

In the references which have been made to the jealousies of local boards it was not intended to cast any reflection upon the ability of these men for performing the duties which fall to their office, but rather to emphasize the undue stress which they are inclined to lay upon the importance of their own districts as related to others. This is not meant, however, to excuse any board members who are grossly incompetent in office.

### **Types of County School Organization**

There has been agitation for the abandonment of local boards with the appointment of a local representative from each district, with the idea that these local representatives should form an advisory committee to meet with the county board. The best illustration, probably, of this type of organization is found in the State of Alabama. Kentucky is an excellent example of a state where there are no local district boards and where the entire county with the exception of cities is under one board of five members elected at large. Students of school administration have looked with disfavor upon the idea of a large board which attempts to be representative of all previously existing districts. A small county board of not to exceed seven members, all to be elected at large, is believed preferable. The fact that the county has grown relatively smaller insures competent and fair representation through a board of not to exceed seven men. The intermediate step of local representatives seems inadvisable, as the principal of each school should be the one best able to present the interests of his community educationally. If he cannot or does not do this it is always possible for representative citizens to protest to the governing board.

Under present Ohio law it is altogether possible that politics may and does enter into the election of county board members. Immediate steps should be taken to provide a means whereby

these members may be elected each year for a tenure about as long as the number of members on the board. Were this feature introduced it would tend to take politics out of the election of the county board members and would also tend to provide a continuous board. Under the present scheme, when three members are elected, the balance of power in the board may be very easily overturned through some inconsequential matter in the community that should not have affected the status of the board or of the school officials.

### **Conclusions and Recommendations**

In brief the present study is intended to show that the present plan of allowing school patrons to shift from one district to another for causes which are not particularly sound brings about a local districting which is not economical either financially or educationally; second, that if the county were made the district and if the city districts were allowed to combine with the county district should they so desire, the matter of districting would be taken care of by a central board and economy both financially and educationally would result; third, that the school system would be materially benefited if very small school districts were abolished. In accordance with these conclusions the following recommendations are made:

#### *I. Optional Provision for County School Unit.*

1. The statutes should be amended so as to provide for the formation of a county school unit where such a proposition is approved by popular referendum. This implies in cases where this is done:

- a. That all local school district boundaries within county school districts shall be eliminated as fixed boundaries with a local governing board.
- b. That the county school unit shall include all territory within the county with the exception of city districts and with the exception of such territory on the boundary lines of counties as it may be necessary to transfer in order to bring about a reasonable and logical districting. In the latter case a village located on the boundary line in such a way that it should draw from two or more counties would be an example.

c. That legislation be enacted that will enable the county board through their executive, the county superintendent, and his assistants, to organize the county as city districts are now generally organized. This would mean the following corollaries:

- (1) A county course of study.
- (2) Certification and appointment of teachers from the county office.
- (3) Elimination of the present local districts affected.
- (4) Study of community factors for the proper determination of centers for school buildings.
- (5) Central organization of the management of business affairs of the schools within the county district.
- (6) Such other items of organization as would ordinarily be found in a city school system.

2. Permissive legislation should be enacted that will allow the amalgamation of city and county school districts.

3. The county school board should be increased in number to seven and all local district boards be abolished. The tenure should be six years with partial renewal at each election.

4. In order to make the county unit effective a system of levying and collecting taxes should be worked out for the county as a whole. Our large city districts take care of their financial affairs as a unit, and it should not be difficult to work out a similar scheme for county districts. Present indebtedness and future needs present immediate difficulties, but it would appear that these may be pooled in such a way as to work no distinct hardship to any community and provide a unity which does not now exist.

## *II. Compulsory Elimination of Smallest Districts.*

1. The school laws should be amended to eliminate school districts having an enrollment of less than 100 resident pupils or a tax valuation of less than \$1,000,000, and to provide for their union with adjoining districts. Such legislation would not, however, provide for the elimination of one-room school houses or for the consolidation of school plant, but only for the enlargement of the administrative area controlled by a single board of education. The districts thus abolished should be permitted to



enter into agreements with adjoining districts for the union of their territory, but where such agreements are not made the county board of education should be empowered to make the necessary transfers.

2. The statutes should forbid the creation of school districts in the future unless such districts will have an enrollment of at least 200 resident pupils and a tax valuation of at least \$2,000,000.

### *III. Better Trained Administrative and Supervisory Officers.*

1. Legislation should be prepared calling for the certification of administrative and supervisory officials in the public school system of Ohio.

- a. This certification to be granted by the State Board of School Examiners.
- b. That the examination be set to cover the fields of administration or supervision respectively rather than that of high school teaching, as at present required.
- c. That the master's degree with a major in the respective fields be accepted in lieu of the examination.

2. In order to guarantee better officials for the administrative and supervisory positions, a provision should be written into the law placing the master's degree with special preparation for the type of work to be done as a minimum requirement.

- a. In order that this may not work a hardship to a successful administrative or supervisory official at present in the system, the standard preparation shall be made gradually effective as was done in the case of legal requirements for the professional preparation of teachers.

Bills have been prepared embodying the recommendations herein contained. One of these measures provides for the elimination of small school districts, and a second authorizes the substitution of the county, exclusive of cities, for the present rural and village school districts in counties voting to make such a change. It is felt that the elimination of very small school districts is a matter of such vital necessity as to demand compulsory legislation providing for their absorption into larger dis-

tricts. The substitution of the county unit, on the other hand, is left to the discretion of the local electorate. It is believed, however, that the adoption of the county unit by a few counties may sufficiently demonstrate its desirability to lead to its eventual introduction in other parts of the state.

## CHAPTER XI

### Ohio's Interest in School Housing

*A Study of Capital Outlay for Public Schools in Ohio and of the Means of Control Over School Housing Exercised By State Governmental Agencies*

#### The State's Interest in Its School Plant

The tragic Collinwood fire of 1908 caused the people of Ohio to definitely determine that such a catastrophe should never occur again in this state. To realize their determination, they turned, as the people invariably do, to the only agency of government empowered to cope with such situations, namely the state. The result was, an Act:<sup>1</sup>

Establishing a building code, regulating the construction of, repair of, alteration on and additions to public and other buildings and parts thereof; regulating the sanitary condition of public and other buildings, providing for fire protection and fire prevention; and providing for the construction and erection of elevators, stairways and fire escapes in and upon public buildings.

This school building code is more stringent, more exacting than that of any other state, for it was designed to forever eliminate the possibility that any school building within this state should again become a firetrap. To make the law effective the Division of Workshops, Factories and Public Buildings, operating within the Department of Industrial Relations of the state government, was empowered to pass upon the plans for all school building construction within the state, and to condemn buildings that were no longer considered safe for school use.

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<sup>1</sup> Passed May 31, 1911. Laws of Ohio, 102, 1911, page 586 ff.

NOTE — This chapter represents the greater portion of a study made by Dr. J. Cayce Morrison, former professor of school administration, the Ohio State University.

In addition to the foregoing, the state has another control over school buildings through the power of the State Department of Education to certify high schools. While this control is exerted indirectly, it has gained steadily in influence due to the fact that there has been a rapidly increasing number of high school graduates each year who desire admission to higher institutions of learning and who can gain such admission only as graduates of approved high schools.

After 15 years of state supervisory control exercised under the provisions of the school building code and with the cost of education increasing annually, it is but natural that the people of the state should desire to re-examine and re-evaluate the influence of the measures set up in 1911. It is the purpose of this report to set forth the operation of the law, to describe the supervisory procedures that have been evolved and to examine the entire program of the state with reference to school buildings, in view of the knowledge that has been evolved during the last decade.

Specifically the investigation has been pursued along five lines:

1. The annual capital outlay for school sites, buildings and permanent equipment.
2. An investigation to determine the administrative organizations set up by the several states for supervising and controlling school building construction.
3. A preliminary analysis of the functions that State Departments of Education are now performing in their attempts to improve the local school plants of their respective states.
4. An analysis of the correspondence of the Ohio State Department of Education with high school districts during the last six years, to determine what influence the State Department of Education is having upon the improvement of school buildings, sites, and equipment.
5. An analysis of the correspondence of the State Department of Industrial Relations with architects and school authorities to determine the department's influence upon school building plans and upon the condemnation of old buildings.



### Annual Capital Outlay for Public Schools in Ohio During Year Ending June 30, 1925<sup>1</sup>

During the year 1924-25, Ohio invested approximately \$18,000,000<sup>2</sup> in capital outlay, sites, buildings and permanent equipment. Reference to Table XXI discloses the fact that \$2,396,000 of this amount went for the purchase of land, \$13,382,000 into the erection of new buildings and the making of additions and repairs to old buildings, and \$1,625,000 to new equipment. The data of Table XXI are derived from the annual reports made by the county auditors to the State Department of Public Instruction; in turn the auditors' reports are prepared from data submitted annually by the clerks of the boards of education.

It may be noted that the total expenditure for city districts for capital outlay was approximately three times as much as that of either the township or the village districts. Of the total amount spent by cities nearly one-third was invested by Cleveland alone. Cleveland, Columbus and Cincinnati were respectively the three higher investors in school plants for the year in question.

Examination of Table XXI raises a question as to whether or not Ohio has reached as yet the peak in its expenditure for capital outlay in public education. Interesting light on this question is

TABLE XXI—THE CAPITAL OUTLAY FOR SCHOOLS IN OHIO FOR THE YEAR 1924-25.\*

District	(a) Purchase of Land	(b) New Bldg's Improvements Additions	(c) New Equipment	Total
Townships* .....	\$382,457 11	\$2,904,626 24	\$390,806 19	\$3,677,889 54
Villages .....	370,379 30	2,689,632 26	299,937 09	3,359,948 65
Cities .....	1,644,055 37	7,788,287 79	935,185 44	10,367,528 60
<b>Total .....</b>	<b>\$2,396,891 78</b>	<b>\$13,382,546 29</b>	<b>\$1,625,928 72</b>	<b>\$17,405,366 79</b>

\* Erie and Tuscarawas counties are not included; their inclusion would raise the total to \$18,301,005.01.

<sup>1</sup> Data for this chapter, prepared by Mr. Herman E. Michael, graduate assistant, Department of School Administration, O. S. U.

<sup>2</sup> The exact figure was \$18,301,005.01. The data from Table XXI do not include expenditure in Erie and Tuscarawas counties whose reports were not available when this report was prepared.

TABLE XXII  
ANNUAL CAPITAL OUTLAY IN OHIO FOR SCHOOL BUILDINGS AND  
GROUNDS, 1900-14

Year	<i>Capital Outlay</i>
1914 .....	\$6,447,026 90
1913 .....	5,186,330 85
1912 .....	5,357,100 66
1911 .....	5,363,451 99
1910 .....	3,893,266 31
1909 .....	4,569,491 68
1908 .....	3,800,287 37
1907 .....	2,965,154 96
1906 .....	2,798,757 76
1905 .....	1,840,015 17
1904 .....	1,179,178 79
1903 .....	1,679,321 96
1902 .....	1,549,523 06
1901 .....	1,721,853 36
1900 .....	1,310,644 32

given in Graps XIV and XV which are derived from Tables XXII and XXIII.

It may be noted from Graph XIV that there was a gradual rise in the cost of capital outlay for education that probably corresponded very closely to the increase in total population. There were no marked fluctuations. Growth was gradual and steady, but from 1915 on the influence of economic conditions during and following the World War made themselves keenly felt in the cost of school building construction. The increases for the years 1915-18 were gradual and followed closely the trend of development for the preceding 15 years. In 1919 there was a short decline in school building operations.

But while there was a decline in building operations there was an increase in school enrollment which by 1920 and 1921 brought a pressure upon the schools for additional space. This was due in part to the strengthening of the compulsory education laws and to the extending of the limits of the compulsory school age.<sup>3</sup> It was also due in part to the greater emphasis on the value of public education which the World War impressed upon the public.

<sup>3</sup> The most significant extension of the compulsory education laws was brought about by the Bing Act, passed April 29, 1921.

Graph XV shows a rapid increase in the cost of capital outlay from 1920-23 inclusive. During this period it is likely that a greater part of the shortage in building space brought about during the war period and by the extension of the compulsory school law was supplied.

TABLE XXIII — ANNUAL CAPITAL OUTLAY FOR LAND, BUILDINGS AND EQUIPMENT — 1915-25.

Year	Land	Buildings	Equipment	Alterations	Total
1925 .....					\$18,301,005 01
1924 .....	\$1,692,929 42	\$25,840,553 51	\$1,923,558 90		29,457,041 83
1923 .....	2,168,526 68	27,761,446 61	2,496,684 59		32,426,657 88
1922 .....	2,718,223 63	25,781,096 49	1,412,905 21	1,798,584 42	31,710,809 75
1921 .....	2,665,714 51	12,244,750 27	1,346,837 99	1,469,341 92	17,726,644 69
1920 .....	1,808,900 65	9,175,731 25	887,166 89	503,427 65	12,370,226 44
1919 .....	758,055 62	7,107,438 54	485,290 73		8,351,784 89
1918 .....	715,744 74	7,993,466 60	324,319 46		9,033,530 80
1917 .....		Omitted (data not available)			
1916 .....	867,271 30	7,359,325 07	319,707 39		8,546,303 76
1915 .....	*	*	*	*	8,982,676 57

This extraordinary increase from approximately \$8,000,000 in 1919 to \$32,000,000 in 1923 was due in large measure to the extraordinary rise in the cost of materials and labor and the resulting shrinkage of the purchasing power of the dollar.

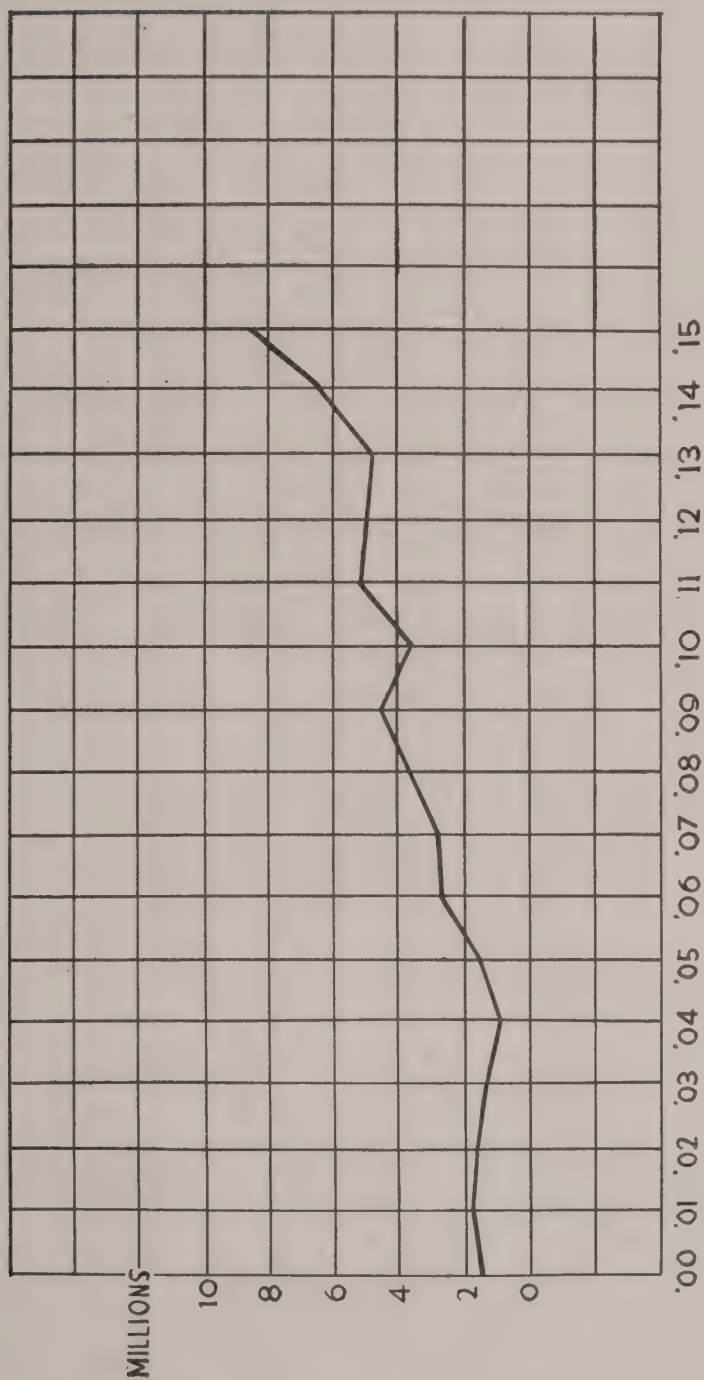
### Outlook Encouraging

Graph XV does give considerable encouragement as one looks to the future. From a capital outlay of 32 millions for the school year of 1922-23 there was a gradual decrease to an outlay of a little more than 18 millions for the school year 1924-25. One may reasonably question what further decrease in capital outlay may be expected.

It has been noted that certain factors determine the amount of capital outlay. These may be restated as follows: (a) the number of pupils to be housed, (b) the kind of construction required, (c) the type of educational program to be accommodated, and (d) the purchasing power of the dollar.

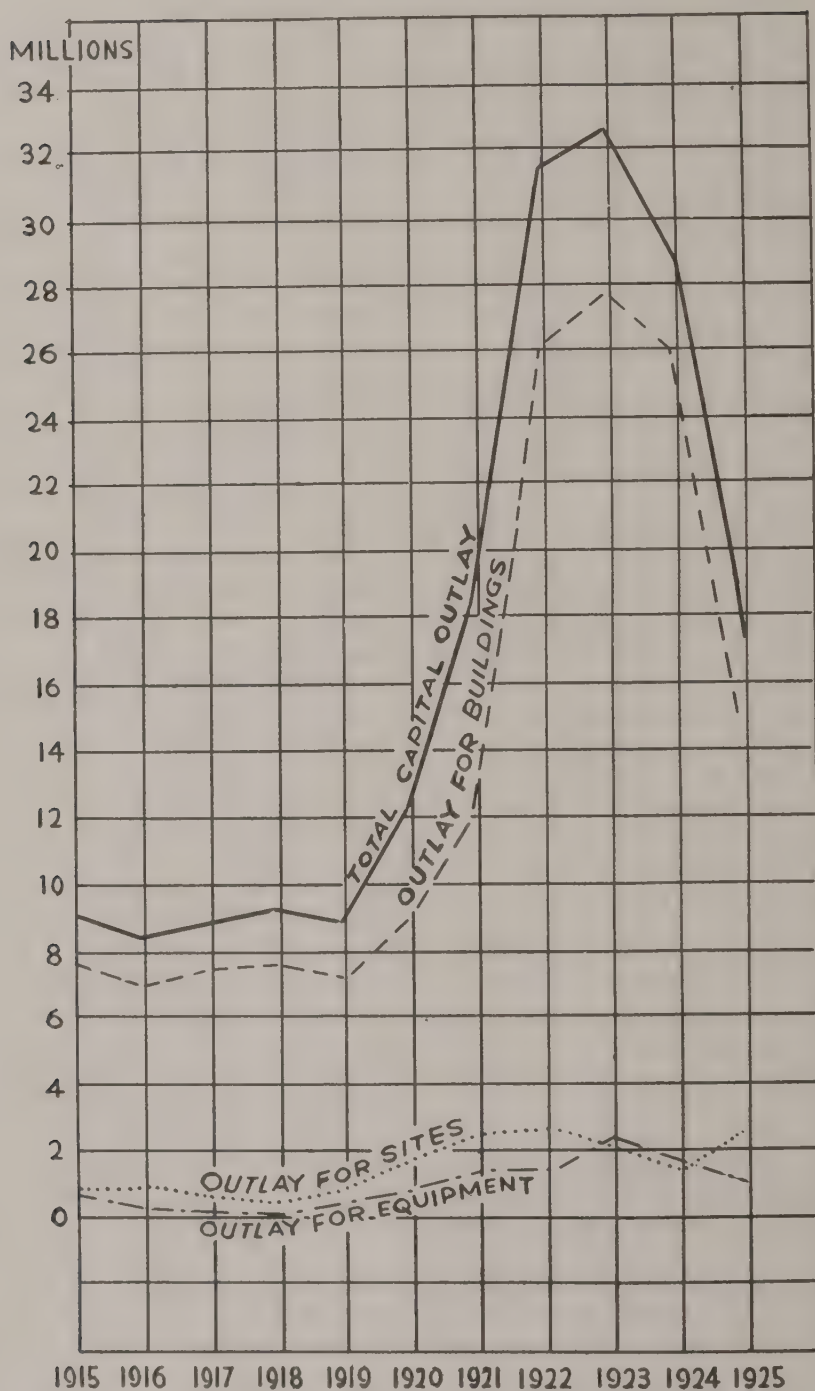
Table XXIV and its accompanying Graph XVI give data showing the increase in school enrollment from 1870 to 1923. Graph XVI further shows how this increase in school enrollment compares with the increase in total population.

\* For year 1915 the outlay for new buildings, grounds, and alterations was not separated and is recorded only as a lump sum.



GRAPH XIV  
CAPITAL OUTLAY FOR SCHOOL BUILDINGS AND SITES 1900-1915





GRAPH XV

CAPITAL OUTLAY FOR SCHOOL BUILDING, SITES AND EQUIPMENT 1915-1925

### Causes of Increased Enrollment

There are two interesting factors operating in the increase of total school enrollment. One is the accelerated increase in high school enrollment which has been more marked since 1920 than before. The other is the rapid rise in school enrollment since 1921 when the Bing Law went into operation. It is probable that we shall never again see such a rapid increase in the

TABLE XXIV — INCREASE OF POPULATION, TOTAL, HIGH AND ELEMENTARY SCHOOL ENROLLMENT IN OHIO FROM 1900 TO 1924.\*

	Total Population	Total School Enrollment	High School Enrollment	Elementary Enrollment
1924 .....	6,219,330	1,290,117	212,712	945,006
1923 .....		1,180,641	206,090	936,547
1922 .....		1,121,602	178,705	902,449
1921 .....		1,058,193	153,881	876,249
1920 .....	5,759,394	1,020,662	128,538	868,449
1919 .....		959,943	130,713	829,230
1918 .....		943,224	124,036	819,158
1917 .....		924,103	112,490	811,613
1916 .....		905,071	108,176	796,895
1915 .....	5,088,627	892,246	103,676	788,570
1914 .....		895,167	91,130	804,037
1913 .....		870,612	88,309	782,303
1912 .....		853,002	80,000	772,393
1911 .....		892,875	84,282	808,593
1910 .....	4,467,121	838,080	75,381	762,699
1909 .....		825,193	73,317	751,876
1908 .....		859,774	68,431	791,313
1907 .....		827,414	65,681	761,733
1906 .....		832,092	64,166	767,926
1905 .....		824,948	60,748	763,500
1904 .....		835,607	57,632	777,975
1903 .....		829,620	57,649	771,971
1902 .....		832,044	58,511	773,533
1901 .....		829,857	58,099	771,758
1900 .....	4,157,545	829,160	56,952	772,208

total public school enrollment of Ohio as has taken place in the last five years. It is also probably true that the rise of high school enrollment will be very much less rapid from now on. The foregoing statements are based on the following assumptions: (a) Ohio now has a compulsory education law that is more inclusive than that of any other state. It is not likely that the age limits set in the Ohio law will be materially increased. It is, of course, true that a more rigid enforcement may slightly increase the total enrollment and it is also possible that the ever-increasing faith of the people in public schools may tend grad-

\* Population figures from Federal Census and World Almanac. Enrollment figures from annual reports of Ohio Department of Education.

ually to bring children from the private and parochial schools into the public schools. But these two sources of increase will, at their best, have only a minor influence upon the future increase of total school enrollment as compared with total population. (b) During the school year 1922-23, approximately 20 per cent of the total school enrollment in Ohio was in the secondary schools,<sup>4</sup> i. e., grades 9 to 12 inclusive. So far as the data are available from other states, Ohio ranks first or near the first in this respect. In 1917-18 California had 19 per cent of its total enrollment in high school and the median for the 48 states was approximately 9 per cent.<sup>5</sup> Since the greatest increase in total school population during the last quarter of a century has been in the secondary field and since Ohio now has a larger percentage of pupils in its secondary schools than has any other state, it is altogether probable that the rise in high school building construction has reached its peak and that from now on it will more nearly approach the curve represented by the total growth of population.

### **Research in Construction Methods**

Research now being made into the architectural and engineering phases of school building construction will likely bring about some changes that will effect economies without injury to the educational program. Such economies will in part offset increases in cost of construction due to the desire of the public to have improved facilities that will make possible a better educational program.

### **Adequacy of Present School Plant**

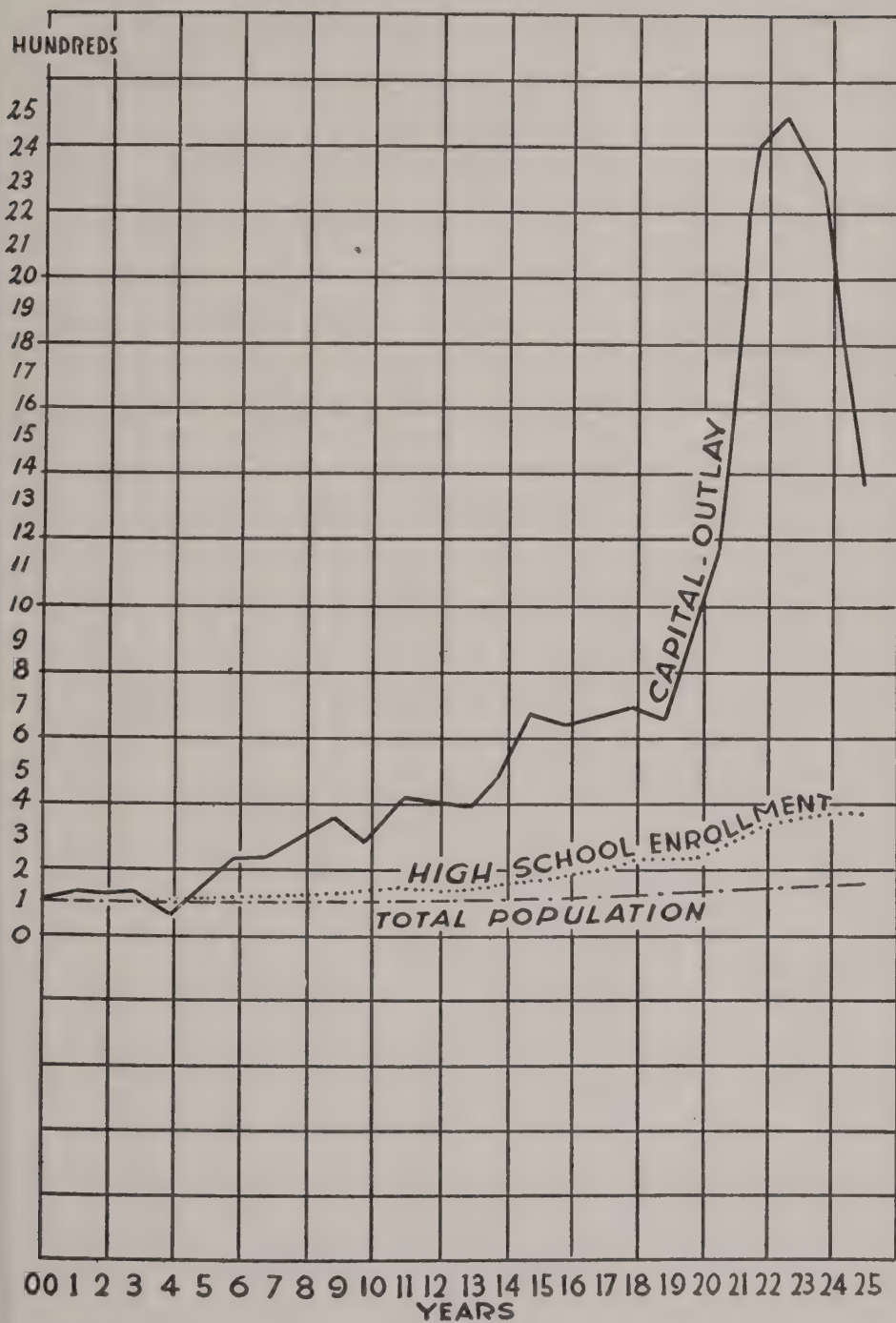
To gain some idea as to the adequacy of the present school plant of the state, the State Department of Education recently asked the principals or chief executives of the county rural and village schools the following questions:<sup>6</sup> (a) Is the building large enough to accommodate enrollment? (b) Is the building safe and sanitary? (c) Is the building properly heated, ventilated and

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<sup>4</sup> Based on data from the Ohio School Report, 1923, Riegel.

<sup>5</sup> Johnson. Administration and Supervision of the High School, p. 108.

<sup>6</sup> These questions were included in the form for The High School Principal's Report, 1925.



GRAPH XVI

TREND OF TOTAL POPULATION, HIGH SCHOOL ENROLLMENT AND CAPITAL  
OUTLAY FOR PUBLIC SCHOOLS 1900-1925



lighted? (d) Are the rooms seated according to law? (e) Is there an auditorium in the building? (f) Is there a gymnasium in the building? (g) Is there sufficient laboratory space? (h) Is there sufficient scientific apparatus? The reports given by 300 chief executives of county, rural and village high schools are analyzed. These reports were taken from counties selected at random and represent approximately 30 per cent of all county high schools; a summary of replies follows:

<i>Per Cent of Schools Reported as Inadequate.</i>	<i>Reason Given for Listing Buildings as Inadequate.</i>
26 .....	Over crowded.
7 .....	Unsanitary conditions.
10 .....	Improperly heated, ventilated or lighted
3 .....	Improperly seated.
40 .....	Lacked auditorium.
54 .....	Lacked gymnasium.
20 .....	Insufficient laboratory space.

The foregoing figures give a somewhat tangible clue as to how school men over the state are thinking in reference to the adequacy of the present school building. When one considers further that some of these buildings were erected as far back as 1850 and nearly one-fifth of them were constructed before 1900, one realizes that for some years to come the problem of replacement and improvement to meet modern educational demands will cause the cost of capital outlay for schools to be somewhat higher than the increase in total population.

### Conclusion

In this connection, it should be noted that capital outlay usually represents a bonded indebtedness that is distributed over a period of years. Therefore, the high peak of \$32,000,000 will be felt in the payment of interest and refunding of bonds for several years to come. It is true, of course, that the cost of capi-

TABLE XXV — THE AGE OF SCHOOL BUILDINGS

<i>Date of Erection</i>	<i>Number of Buildings</i>
1850-54 .....	1
1855-59 .....	1
1860-64 .....	1
1865-69 .....	2

1870-74 .....	2
1875-79 .....	5
1880-84 .....	5
1885-89 .....	11
1890-94 .....	10
1895-99 .....	9
1900-04 .....	13
1905-09 .....	26
1910-14 .....	34
1915-19 .....	64
1920-24 .....	55
1925 .....	10
<hr/>	
Total (reported) .....	249
Date of erection of median building, 1915.	

tal outlay for public education in Ohio will never again be as low as in 1914; but it is a safe prediction that the crest of the wave has been passed and that the total cost of capital outlay, henceforward, will tend to more nearly approximate the trend in increase of total population.

### **State Systems for Securing Adequate School Sites, Buildings and Equipment<sup>\*</sup>**

Thirty-two of the 48 states have recognized that school housing and equipment is a function to be supervised and controlled in some measure by state authorities. The school laws of the several states have been examined to determine what authority the state has assumed for the following functions:

- (a) Approval of plans and specifications for new buildings.
- (b) Approval of plans and specifications for additions to old buildings.
- (c) Approval of plans and specifications for school equipment.
- (d) Approval of plans and specifications for repairs on old buildings.
- (e) Approval of selection of school site.

In addition to the foregoing, information was sought as to whether the state had assumed the power of condemnation; and,

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<sup>\*</sup>From a study made by Mr. A. L. Heer, Assistant, Department of School Administration, Ohio State University.

in what agencies the state had invested the powers of approval and condemnation.

To check the information obtained from reading the school laws, a letter was sent to the chief educational officials of the several states asking them to verify and supplement the information obtained from analysis of the statutes for their respective states.

### **Approval of Plans for New Buildings**

Twenty of the states have vested some state agency of government with power to approve plans for the construction of new school buildings in all districts of the state. Twelve other states have vested some agency with approval power in certain types of school districts. These states are listed respectively below.

The following states require the approval of all plans for new school buildings in all districts of the state:

Delaware,	Michigan,	Pennsylvania,
Idaho,	Montana,	South Carolina,
Iowa,	Minnesota,	South Dakota,
Indiana,	Nevada,	Texas,
Louisiana,	New Jersey,	Vermont,
Maine,	North Carolina,	Wisconsin.
Maryland,	North Dakota,	

The following states have limited approval only, usually the exemptions are for the larger cities:

Arkansas,	Massachusetts,	Virginia,
Connecticut,	New York,	West Virginia.
Georgia,	Ohio,	
Kansas,	Tennessee,	
Kentucky,	Utah,	

Approval powers vested in state government do not always include the same function. Following is a statement of the approval functions of government as they concern school buildings and the number of states which exercise each function:

<i>Function Approved</i>	<i>Number of States</i>
Plans and Specifications for New Buildings.....	32
Plans and Specifications for Additions to Old Buildings.....	22
Plans and Specifications for Repairs.....	17
Plans and Specifications for Equipment.....	12
Selection of Sites.....	10

It will be seen from the foregoing that the majority of states have been interested primarily in approving the plans and specifications for new buildings and for additions to old buildings. A perusal of the school laws of the 32 states concerned and of the correspondence with the officials charged with the approval functions of school buildings, indicates that the state has been vested with such powers, primarily, in order to protect children against unnecessary fire hazard. A second important reason given for state supervisory control is that children may be housed under sanitary conditions. Likewise in a few cases the approval of site was concerned only with sanitation. Another causal factor noted in the correspondence was the tendency to secure state approval of school building sites and equipment in order to insure a more adequate housing of progressive educational program. This tendency may be inferred in the following tabulation, which lists the governmental agencies which have been vested with the approval of one or more phases of the school plant.

<i>Agency Granting Approval</i>	<i>Number of States</i>
State Education Department.....	26
State Board of Health.....	3
Inspector of Workshops and Factories.....	1
Supervisor of Plans.....	1
State Architect .....	1

From the foregoing it may be noted that of the 32 states which have vested the power of approval over the school plant in a state division of government that 26, or 81 per cent, have vested such powers in the State Education Department.

### **Power of Condemnation of Buildings**

Twenty-four of the states have seen fit to vest some division of the state government with the authority to condemn school buildings. There has as yet been no such apparent unanimity of opinion on this point as was found on the approval powers. It is apparent from study of the laws and correspondence that the majority of states in formulating such legislation have vested it in agencies of government that were already well established, and which at the time of passing the law, were most capable of rendering the service required in condemnation proceedings. Be-



low are listed the agencies of government in which the power of condemning school buildings had been placed and the number of states utilizing each agency.

<i>Agency Empowered to Condemn School Buildings</i>	<i>Number of States</i>
State Education Department.....	8
State Board of Health.....	6
State Fire Marshal.....	3
Bldg. and Factory or Workshop Inspector.....	2
Department of Fire Prevention and Rates.....	1
Department of Public Works.....	1
Inspector of Buildings and Sanitation.....	1
Insurance Commissioner .....	1
State Board of Control.....	1

It will be seen from the foregoing that of the states which have vested the central government with power to condemn school buildings one-third have vested such power in the State Education Department, and one-fourth have vested the power in the State Board of Health. In the latter case it is apparent that the chief concern of those promoting such legislation was the conservation of children's health. Again, three states have vested such control in the state fire marshal's office. Here, apparently, the chief interest was the protection of children against fire hazard. Examination of the authority vested in the other agencies by the several states concerned suggested that the underlying motive in such legislation was to protect children against both fire hazard and unsanitary environment. It is probable that the power of condemnation could be vested in a State Education Department, successfully, only when such department has a bureau or other subdivision thoroughly qualified to pass judgment upon the quality of the construction of school buildings.

### **A Preliminary Analysis of Special Functions Performed By State Education Departments with Reference to School Housing**

It has been noted that 26 of the 32 states which have some state control over school building construction have vested such control in State Departments of Education. All 26 states have vested the approval of plans and specifications for new school buildings in their State Department of Education; 22 have given

such departments approval of plans and specifications for additions to old buildings; 20, the approval of plans for repairs of old buildings; 12, the approval of plans and specifications for the equipment of new buildings; and 10, approval of new building sites.

Following is a list of exceptions to the above statement:

<i>Definition of the Exception.</i>	<i>Number of States Making Exception.</i>
Approval is limited to state aid districts only.....	3
Approval is limited to those schools requesting it.....	3
Approval of repairs or additions to old buildings is limited to costs of \$300 or above.....	3
Approval of repair or additions is limited to expenditure of \$500 or more.....	2
Approval is limited to certain types of districts only.....	3
Approval of sites only upon appeal to determine unsanitary conditions .....	3

Two states also may require approval of some other state agency; for instance, Montana, which requires the approval of both the State Department of Education and the State Board of Health.

One of the favorite means utilized by the State Education Department for promoting better school-housing facilities is the preparation of standard plans and specifications for submission to boards of education. Nineteen of the 26 states prepare such plans; of these 19, 7 have prepared plans only for small rural or village schools and 3 others submit plans only for certain types of buildings upon request. Other functions performed by State Education Department officials responsible for school buildings, as evidenced by their correspondence on the subject, are (1) the selection of sites more adequate for playground and recreational facilities; (2) the better adaptation of the building to the needs of the educational program that is to be offered within the building; (3) study of the special conditions of the community that should determine the type and size of building to be constructed; and (4) advice to boards of education as to the most economical construction designed to obtain the educational facilities needed. It may be noted that Ohio has not vested any state agency with the responsibility for promoting any one of the foregoing aims.

### The Influence of the State Department of Education Upon School Sites, Buildings and Equipment<sup>8</sup>

The data for this division of the study were taken from the files of the State Department of Education, which contain all of the correspondence which has transpired between that department and the responsible officials of each school. The investigation covers a period of six years—1920-25 inclusive. A total of 36 counties, which include about 475 high schools, has been reviewed to date. Of this total number, 438 are tabulated as having some deficiency at the time of inspection. Only public high schools are included in this study.

The letters, dealing strictly with reports of inspection, numbered 557. Eighteen per cent or 100 responses to these letters were received. Diagram I will show this ratio more clearly.

Diagram I—Per Cent of Responses to Reports of Inspection.

	No.	%
Total Inspections.....	557	100
Total Responses.....	100	18

The annual reports of the high school principal sometimes gave statements indicating that the recommendations of the last inspection had been met. This information was not checked in the data because such instances were very few. Usually, when no direct communication came, after an inspection, follow-up letters were sent out. One hundred and six such letters were sent, and a much better response obtained—52 per cent. This is shown in Diagram II.

Diagram II—Per Cent of Responses to Follow-Up Letters.

	No.	%
Total No. Letters.....	106	100
Total Responses .....	55	52

These figures show that interest is decidedly lacking in a large number of cases. The percentage of response should be very much higher than it has been.

Although the data are not sufficiently collected to accurately show the type of school which is in greatest need at present, we

<sup>8</sup> Prepared by Mr. Herman E. Michael, Graduate Assistant, Department of School Administration, Ohio State University.

do find that most of the attention and aid has been given to the smaller schools, and most frequently to those of the second and third grade. The city high schools are usually up to the standard, except for occasional needs in the library, etc.

### Sites

There were but five cases or less than one per cent of the total number of inspections that mentioned the sites as being inadequate.

We may assume several implications from such a condition. First, that there is sufficient ground for the location of the building and also for recreational purposes. Second, that in most instances the site is carefully selected previous to a building program. Third, that the adequacy of the site may be overshadowed by too great an emphasis upon the condition of the building, and fourth, that the State Department of Education has not yet seen fit to stress the educational importance of grounds adequate for recreational facilities.

### Repairs

Ninety-seven reports or 17 per cent of the total inspections indicated a need for repairs. Diagram III will give a fair picture of this need. The nature of the repairs ranged from minor ones, such as broken window panes and loose plaster to conditions which were so serious and even dangerous that the charter was suspended until remedial measure should be met.

Diagram III — Per Cent of Inspections Indicating Need of Repairs.

	No.	%
Total Inspections.....	557	100
Total Repairs.....	97	17

### Equipment

We find that most of the buildings were needing a few items in equipment. Four hundred and eighty-three, or 87 per cent of the inspections indicated this need. The library was most often noted as being neglected. The other subdivisions under equipment, in order of importance, were as follows: (2) maps, (3) miscellaneous equipment, (4) general apparatus, (5) physics and chemistry apparatus, (6) office equipment, (7) domestic sci-



ence, (8) manual training. The total number and per cent of each item is found in Diagram IV.

Diagram IV — Per Cent of Inspections Indicating Need for the Following Items of Equipment.

	No.	%
Total Inspections.....	557	100
Library .....	331	59
Maps .....	209	38
Miscellaneous .....	177	32
General Apparatus.....	162	29
Physics & Chem. Appar..	129	23
Office Equipment.....	40	7
Domestic Science Equip..	33	6
Manual Training Equip..	29	5

Inadequacy of maps meant either historical, physical, political or blackboard outline. The miscellaneous equipment included desks, clocks, etc.; general apparatus, such equipment as barometer, microscopes, etc. The other terms are self-explanatory. The total need of repairs is shown in Diagram V.

Diagram V — Per Cent of Inspections Indicating Need of Equipment.

	No.	%
Total Inspections.....	557	100
Total Schools Needing Equipment .....	483	87

## Buildings

In checking up the condition of the buildings, we find that 205 inspections, or 37 per cent, indicated school buildings as inadequate. This seems to be a high percentage when we consider the vastness of the building program of the last decade. The inadequate buildings are rather evenly distributed throughout the territory in all the different types of schools. Some of our most recent buildings are already overcrowded, simply because they

Diagram VI — Per Cent of Inspections Indicating Need for a Larger Building.

	No.	%
Total Inspections.....	557	100
Need for Adeq. Bldg....	205	37

were not planned with foresight. They were built to supply the needs of the present instead of the future, and thus in some cases were outgrown before entirely completed.

Another big factor contributing to this overcrowded condition is the influx of students due to compulsory attendance laws. We must also recognize the steady increase in population as a big item to be considered, if our buildings are to stand the test of time and be really adequate for a decade after construction.

### High School Charters Granted

Diagram VII — Type and Number of Charters Granted.

	No.	%	
Total No. Granted.....	155	100	
First Grade Charters....	83	54	
Second Grade Charters..	28	19	
Third Grade Charters...	24	15	
Temporary Charters.....	18	12	
Doubtful Charters.....	2	0	

The Diagram VII clearly illustrates the type and number of charters granted during the last six years to high schools in the 36 counties studied. The number of first-grade schools as covered in this investigation is small in proportion to the total number of first-grade high schools in the state at the present time. This number may be increased somewhat by those classified as temporary. The temporary classification contains all grades, the purpose of this type of charter is to protect the students in the graduating class. By granting a charter to a school until after graduation, the diplomas of the graduating students will be valid. However, the temporary charters are usually revoked the first day after graduation. Sometimes the temporary charter is issued until the inspectors have an opportunity to visit the school and make recommendations for a permanent rating of the school.

### High School Privileges Denied or Granted

The status of the high school charter is directly related to the general condition of the school. The presence of a charter signifies that the school has met, and is maintaining the proper standards, as required by the State Department of Education. This department has been quite insistent, and rightly so, in abolishing small schools that are absolutely inadequate in many, if not

all, respects. A number of times, schools have failed to uphold the standards, either as to adequate equipment or adequate buildings. Due to the above and similar causes, we find that high school privileges have been withdrawn or denied a total of 30 times in the 36 counties during the six-year period.

The foregoing is tangible evidence that the department is attempting to decrease the number of these rather inefficient types of schools. Several times communities requested the right to maintain a high school and this request was denied on the grounds of too small enrollment and because of the proximity of another high school. Such procedure will do much to eliminate the weak and inefficient type of school.

### **Summary**

It is apparent from the foregoing discussion that the State Education Department is giving careful attention to those phases of school buildings and equipment that directly and indirectly affect the success of the educational program, to be carried on within the building. One may surmise the inefficiency that would result, especially in rural and village schools, if such helpful and suggestive supervision from the State Education Department were not provided. It is further apparent that the State Education Department is taking cognizance of the economic factors involved in the development of rural and village high schools as is attested by their refusal to grant charters to 30 schools because of their smallness, their proximity to other schools and their general inability to provide suitable school facilities.

### **The Work of the Department of Industrial Relations with Reference to School Buildings<sup>9</sup>**

Section 12600-281 charges "the state fire marshal or fire chief of municipalities having fire departments to enforce all the provisions" of the code relating to fire prevention. This section further charges the chief inspector of workshops and factories or building inspector, or commissioner of buildings in munici-

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<sup>9</sup> Data collected by Mr. C. S. Sims, Graduate Student, Department of School Adm., O. S. U., through the courtesy of Mr. C. A. Benedict and Mr. R. H. Shutt, Division of Workshops, Factories and Public Buildings, Department of Industrial Relations.

palities having building departments to enforce all the provisions of the code for the construction, arrangement and erection of buildings or parts thereof, including the sanitary conditions of the same in regard to the heating and ventilating thereof. Further this section charges the State Board of Health or building inspector or commissioner, or health department of municipalities having building or health departments to enforce all the provisions in this act, in relation and pertaining to sanitary plumbing.<sup>10</sup>

Nineteen cities and villages<sup>11</sup> of the state have established their own building departments which are charged with the enforcement within their own borders of the provisions of the code as outlined above for the remainder of the state.

The Division of Work Shops, Factories and Public Buildings approves all plans, drawings, specifications and data prepared for the construction, erection and equipment thereof, before construction begins.<sup>12</sup> When the building is finally completed, and before it can be used, it must be inspected and approved by this division.

### **The Functions of This Division**

The functions of the division of work shops, factories and public buildings with reference to school buildings is threefold: (a) The approval of plans as outlined above, (b) A periodical inspection of buildings and (c) the condemnation of buildings that are no longer satisfactory from the standpoint of construction, fire protection and sanitary conditions. During the past five years this division has approved plans for more than 200 new buildings per year. The exact number of inspections, orders issued, and examination of plans for school buildings per year is given in Table XXVI.

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<sup>10</sup> Section 12600-281, Ohio State Building Code Bulletin of the Department of Industrial Relations and the Industrial Commission of Ohio, 1924.

<sup>11</sup> Akron, Barberton, Canton, Cheviot, Cincinnati, Columbus, Cleveland, Cuyahoga Falls, Dayton, Lakewood, Lima, Middletown, Rocky River, Shaker Heights, Toledo, Warren, Worthington, Youngstown and Bexley.

<sup>12</sup> Section 12600-296, page 7, do.



TABLE XXVI

A STATISTICAL SUMMARY OF THE SERVICE RENDERED BY THE DIVISION OF  
FACTORY AND BUILDING INSPECTION TO THE SCHOOLS OF THE STATE.

<i>Year Ending</i> <i>June 30th</i>	<i>No. Inspections</i> <i>Made</i>	<i>No. Orders</i> <i>Issued</i>	<i>No. Examinations</i> <i>of Plans</i>
1917 .....	2,259	1,930	219
1918 .....	1,073	892	134
1919 .....	887	769	107
1923 .....	1,476	1,164	295
1924 .....	959	786	227
1925 .....	796	557	219

The foregoing table substantiates the evidence given in the discussion of capital outlay, namely, that there was little school building during the years 1918 and 1919 and that 1923 saw the peak of school construction.

The number of school buildings inspected each year, the number of orders issued following inspections, and the number of plans for new construction that are examined, — all give evidence as to the interest of the state in its school plant, and suggest the bigness of the problems involved in adequate supervision of school housing in Ohio.

The Division exercises its approval of plans and specifications almost entirely through correspondence and negotiation with the architects employed by Boards of Education. The correspondence carried on by the Division with the architects representing 150 different school building projects for the year 1924 and 162 buildings for the year 1925 was studied. The errors found in plans and the changes that the Division requested should be made were noted. A tabulation of these changes requested or demanded gives a fair index as to the interests of the Division and as to its influence upon the school building situation in the state. In reading Table XXVI it should be noted that the legal responsibility of the Division is limited to the inspection of construction, the protection against fire hazard, and the sanitary conditions relative to heating, ventilating and plumbing.

Table XXVII shows defects found by the Division in the plans submitted to them for approval and gives the number of times each defect was mentioned in the correspondence of the Division with the architects concerned.

TABLE XXVII

DEFECTS FOUND IN SCHOOL BUILDING PLANS BY THE DIVISION OF WORK  
SHOPS, FACTORIES AND PUBLIC BUILDINGS.

<i>Defects in Plans and Specifications.</i>	<i>No. of Times Mentioned</i>	
	<i>1924</i>	<i>1925</i>
Exterior walls and lot line.....	46	57
Fire Protection—Total.....	123	118
a. Stand Pipe and Hose.....	21	9
b. Fire Gongs .....	15	12
c. Fire Slabs, stair wells.....	2	7
d. Fire Doors .....	17	28
e. Fire Proof Walls.....	5	2
f. Fire Extinguisher .....	5	7
g. Kalamine Doors .....	30	27
h. Fireproof Slab .....	4	4
i. Firedoor—Fan and Heater.....	17	17
j. Fire Escape .....	7	2
Construction (for heating plant)—Total.....	46	51
a. Fuel .....	5	4
b. Fan Room .....	3	1
c. Walls .....	14	16
d. Heater Room .....	5	6
e. Flues .....	19	24
Lighting — Total .....	33	39
a. Cross Lighting .....	7	8
b. Glass Area .....	26	31
Vent, Flues and Stacks — Total.....	32	41
a. Air Velocity .....	6	4
b. Vent Flues, Con'st.....	19	24
c. Vent Registers, Warm Air.....	4	9
d. Vent Flue Area.....	3	4
Ventilation — Total .....	29	30
a. Air Changes .....	10	7
b. Recirculation .....	3	2
c. Ventilation, Phases of.....	6	15
d. Wardrobes and Lockers.....	10	6
Standard Ventilating Stoves—Total.....	13	9

Toilets — Total .....	61 .....	46
a. Ventilation .....	8 .....	8
b. Lighting .....	3 .....	1
c. Facilities .....	11 .....	4
d. Location — Outside .....	39 .....	23
Standard Hardware .....	28 .....	31
Structural Steel .....	9 .....	4
Stairways — Total .....	19 .....	18
a. Rise and Tread .....	7 .....	10
b. Handrails .....	8 .....	2
c. Landings .....	4 .....	6
Ceiling Height .....	10 .....	18
Egress .....	27 .....	48
Exits changed and blocked .....	35 .....	20
Electrical Wiring .....	18 .....	30
Stage .....	4 .....	0
Steel Shutters .....	11 .....	8
Rest Room .....	4 .....	6
Motion Picture Booth .....	4 .....	2
Store Rooms, Omission of .....	4 .....	5
Balcony Seating .....	2 .....	2
Auditorium Seating .....	1 .....	5

Of the 176 sets of school building plans which were considered in this study for 1924, 142 were approved with suggestions for minor changes. Fourteen were approved after one or more revisions had been made by the architect. For various reasons twenty were not approved. Similarly in 1925, 121 were approved without being returned for revision, twelve were approved after one or more revisions, and fourteen were not approved.

Table XXVII shows that approximately 120 buildings each year were deficient in one or more aspects of fire protection and that large numbers were deficient in toilet facilities, natural lighting and ventilation, and in the construction of the compartment for the heating plant and of stairways. No better evidence is needed of the necessity for rigid supervision of school building construction than the briefly summarized data of Table XXVII.

### General Summary

1. Ohio's State Building Code was a direct result of the Collinwood fire of Cleveland and was designed, primarily, to protect children against fire hazard, and, secondarily, against unsanitary working conditions.

2. The very stringent provisions of the Code, the rapid increase of school enrollment, the desire of the public for more and better school facilities, and the depreciation of the dollar caused the capital outlay expenditure for public schools in Ohio to increase from \$1,310,000 in 1900 to \$32,426,000 in 1923.

3. From 1923 to 1925, the capital outlay decreased from thirty-two to eighteen millions. The evidence points to the conclusion that 1923 represents the peak of expenditure for capital outlay for schools in Ohio; and that the trend of expenditure for capital outlay will gradually approach the trend of increase in population.

4. Ohio is one of 32 states that have vested some control of school housing in state agencies of government. Study of the plans of control set up in these states suggests three reasons for state supervision of school housing: (1) protection against fire hazard, (2) safeguarding children against unsanitary working conditions, and (3) securing facilities for a better educational program.

5. Twenty-six of the 32 states have vested state control and supervision of school housing in their state education department. Reading of their reports and correspondence with officials responsible for administering the requirements of the law discloses two other objectives to be gained, namely, (4) a scientific planning of the building terms of present and probable future needs of the community, and (5) advice to boards of education as to the most economical construction designed to obtain the educational facilities needed.

6. The Ohio State Department of Education exercises a control over school housing through its power and responsibility for chartering high schools. An examination of their correspondence with high schools of 36 counties over a six-year period shows that they recommended improvements in building, equipment or both for 438 schools. The Department does not have control over elementary school buildings.



7. The Division of Workshops, Factories and Public Buildings approves plans and specifications for all school buildings in the state except in those cities which have their own building departments. An examination of their correspondence over a two year period with reference to approval of plans for new buildings gives ample proof that the life and health of thousands of school children would be endangered if the State did not have such a safeguard as this Division exercises. This Division also has power to condemn school buildings.

No recommendations have been evolved from the subject matter of this chapter as yet. The Committee did not wish to do so until the Board of Building Standards had submitted its legislative recommendations which were not available when this report went to press.

## CHAPTER XII

### Entrance Requirements to State Universities and Colleges

Among the matters which have come to the attention of your Committee in the field of public education none perhaps, is of more interest than the amazing growth of the enrollment during recent years in the state supported institutions of higher learning. This most rapid growth has entailed increases in expenditures which have been equally imposing. So rapid indeed has been the increase both in enrollment and expense that questions of serious import have arisen which are the concern of those in responsible charge of these state supported universities and colleges, the legislature and the beneficiaries and the supporters, of these institutions—the people of Ohio. Among the questions which force themselves upon all who examine the outstanding facts are the following: Will the very rapid increase in enrollment which has characterized the last decade continue at an equal or perhaps accelerated rate? What increase in expenditures will presumably be involved if enrollment growth continues at an undiminished rate? Will enrollment growth tax unduly the capacity of the people of the state to finance the cost involved? Will considerations of cost make necessary some method of restricting enrollment or greater participation in meeting the expense of furnishing an education on the part of the student himself or both?

Your Committee has had the benefit of some illuminating and provocative discussions of these matters by the presidents and other officials of the state universities and colleges. From the material and data which these spokesmen have presented much interesting and pertinent information may readily be developed. In fact the Committee was distinctly impressed by the admirable grasp of these and allied educational problems shown by the executive and administrative officers of the several state colleges and universities. Of particular interest to the Committee is a statement prepared by Dr. R. M. Hughes, president of Miami University, Oxford, Ohio. This document is entitled "Ohio's Educational Problem, 1925 to 1935", and was published by Miami University in December 1925. From it the following extracts are taken:

**Enrollment.** — “Six years ago a study was made of the enrollment in Ohio colleges and at that time, in October 1919, when there were 25,000 enrolled, it was predicted that ten years later, in 1930, there would be an enrollment of 37,000. At the time it seemed impossible either that so many students could find their way to college or that the college could take care of such numbers.

Last year, 1924-25, only five years later, Ohio colleges, enrolled 38,795 students, the growth in enrollment being over twice as great as predicted. Many said that this growth was due to the war and would drop away. In the face of this unprecedented growth and the fact that the colleges are still continuing to grow rapidly, it now seems desirable that a further study be made looking ten years ahead.

The following table gives the enrollment of Ohio colleges from 1918-19 to 1924-25.\* These figures have been taken from the reports of the State Superintendent of Public Instruction and they are probably fairly accurate. Where estimates were made the figures are enclosed in brackets.

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\* The corresponding figures covering period from 1890 to 1917-18 were printed and distributed to the Ohio College Association in 1919 by the writer.

## COLLEGE ENROLLMENT IN OHIO 1918 TO 1925

	1909-10	1914-15	1918-19	1919-20	1920-21	1921-22	1922-23	1923-24	1924-25
Ohio State.....	3,275	4,597	5,165	6,600	7,277	7,784	8,583	9,154	9,923
Cincinnati .....	1,143	2,298	2,731	2,630	2,772	2,889	2,948	3,279	3,472
Western Reserve.....	619	853	1,446	2,016	2,150	2,331	2,431	2,555	2,524
Ohio Wesleyan.....	865	990	1,258	1,318	1,456	1,791	1,709	(1,790)	1,875
Oberlin .....	(925)	1,002	1,550	1,553	1,629	1,679	1,702	1,685	1,736
Ohio .....	516	1,359	984	1,026	1,219	1,483	1,571	1,696	1,841
Miami .....	481	664	1,027	1,031	1,062	1,245	1,472	1,563	1,701
Akron .....	133	249	454	452	512	788	899	1,011	1,057
Toledo .....	...	214	379	(410)	803	352	627	473	952
Denison .....	381	428	781	634	702	693	750	(830)	910
Wooster .....	416	444	671	576	611	735	807	808	868
Muskingum .....	147	296	476	449	484	(580)	671	717	867
Wittenberg .....	(300)	380	364	493	600	607	723	801	844
Ohio Northern.....	437	160	950	625	661	(650)	(700)	(800)	970
Kent .....	...	379	204	247	316	482	538	639	641
Mount Union.....	191	252	300	388	398	448	467	533	481
Bowling Green.....	...	158	(350)	276	362	489	(510)	575	588
Case .....	479	549	887	778	731	717	637	556	576
Antioch .....	89	55	92	36	41	203	(300)	515	551
Otterbein .....	210	231	365	292	346	446	444	(490)	533
Heidelberg .....	118	222	251	252	259	(280)	307	345	385
Dayton .....	48	70	102	125	160	203	286	(340)	397
Hiram .....	(222)	213	354	272	283	325	380	387	380
Marietta .....	150	205	300	239	298	300	303	324	353



Capital .....	(150)	87	115	193	159	194	209	(275)	346
Western .....	203	255	267	311	318	313	323	(325)	332
John Carroll.....	51	66	159	115	146	(200)	(250)	(280)	323
Wilberforce .....	24	61	197	350	(300)	265	252	202	559
Baldwin-Wallace .....	(100)	229	335	213	254	321	304	304	318
Bluffton .....	...	88	120	176	174	195	194	221	304
St. Xavier.....	68	61	58	(75)	107	280	280	(285)	290
Defiance .....	(105)	169	226	140	172	221	248	286	283
Ashland .....	49	154	144	176	106	216	188	(230)	268
Kenyon .....	125	136	127	160	171	250	250	(250)	255
Wilmington .....	97	110	123	136	166	(200)	268	(260)	254
Oxford .....	128	122	139	179	219	207	179	(190)	207
Lake Erie.....	95	130	136	132	156	156	166	186	186
Findlay .....	46	62	119	103	87	(100)	129	148	141
Cedarville .....	59	53	47	74	72	80	119	(125)	137
Rio Grande.....	12	27	110	(110)	112	111	110	(105)	106
Mt. St. Joseph.....	...	...	...	...	...	...	91	(100)	113
Total .....	12,457	18,078	23,863	25,361	27,851	31,000	33,325	35,438	38,847

Here is a table which shows the growth in attendance at our high schools and colleges. From 1900 to 1925 increases are shown:

## GROWTH 1900-1925

Population .....	2,163,500	52%
Enrollment in Grades.....	278,500	36%
Enrollment in High Schools.....	163,100	286%
Enrollment in Colleges.....	31,900	460%

## ENROLLMENT GROWTH

<i>Year</i>	<i>Population of Ohio</i>	<i>Enrollment Grades</i>	<i>Enrollment High School</i>	<i>High School Graduates</i>	<i>Enrollment Colleges</i>
89-90 ....	3,672,316	760,947	30,775	.....	5,549
90-91 ....	.....	759,564	27,978	.....	5,701
91-92 ....	.....	761,775	38,581	.....	5,283
92-93 ....	.....	766,325	31,364	.....	5,919
93-94 ....	.....	(767,825)	(39,800)	.....	6,482
94-95 ....	.....	769,100	48,380	.....	6,570
95-96 ....	.....	771,527	49,035	.....	6,812
96-97 ....	.....	772,899	52,751	.....	7,048
97-98 ....	.....	781,700	49,874	.....	6,754
98-99 ....	.....	771,469	57,031	.....	7,506
99-00 ....	4,157,545	(771,500)	56,952	.....	6,940
00-01 ....	.....	771,758	58,099	.....	7,488
01-02 ....	.....	773,533	58,511	.....	8,243
02-03 ....	.....	771,971	57,649	.....	8,336
03-04 ....	.....	777,975	57,632	.....	9,096
04-05 ....	.....	763,500	61,448	.....	9,443
05-06 ....	.....	767,926	64,166	.....	9,712
06-07 ....	.....	761,733	65,681	.....	11,222
07-08 ....	.....	791,313	68,431	.....	11,416
08-09 ....	.....	751,876	73,317	.....	12,406
09-10 ....	4,767,121	772,699	75,381	.....	12,802
10-11 ....	.....	808,593	84,282	.....	13,745
11-12 ....	.....	772,393	86,609	.....	14,672
12-13 ....	.....	(788,400)	(88,870)	.....	16,034
13-14 ....	.....	804,037	91,130	.....	16,944
14-15 ....	5,088,627	825,901	103,676	14,429	18,293
15-16 ....	.....	840,117	108,176	16,552	19,691
16-17 ....	.....	865,764	112,490	17,364	20,698
17-18 ....	.....	866,764	124,066	20,316	20,358
18-19 ....	.....	880,290	130,713	18,794	24,017
19-20 ....	5,759,394	868,449	128,538	(18,800)	25,466

20-21 ....	854,211	151,719	18,904	27,890
21-22 ....	902,449	175,593	21,582	30,971
22-23 ....	936,527	202,347	23,179	33,209
23-24 ....	1,002,102	212,712	26,133	35,042
24-25 ...	(6,321,000) (1,050,000)	(220,000)	(30,000)	38,795

Note: Brackets indicate that figures are estimates only.

Following these several lines of growth, and assuming that approximately the same rate of growth continues in population and in the grades, and modifying the curves for the high schools and colleges somewhat, as they seem to be affected by the total population of high school age, we may expect in 1934-35, ten years hence, the following:

	1929-30	Increase	1934-35	Increase
Population .....	6,800,000	.....	7,350,000	.....
Increase over 1925....	.....	479,000	.....	1,039,000
Enrollments in Grades..	1,200,000	.....	1,325,000	.....
Increase over 1924....	.....	198,000	.....	323,000
Enrollment in High Schools .....	262,000	.....	283,000	.....
Increase over 1924....	.....	50,000	.....	71,000
Enrollment in Colleges..	52,000	.....	60,000	.....
Increase over 1925....	.....	13,000	.....	21,000

How will such enrollment as is shown above be distributed? The following table shows enrollment and per cent of total enrollment of the colleges of the state from 1900 to 1935 considered in four groups. It is notable that the enrollment in the nine publicly supported institutions, state and city, has increased from 30% in 1900 to 53% in 1925, and the enrollment in the thirty-four privately supported institutions has decreased from 70% to 47% during the same period. The seven institutions included under "7 Larger Endowed" are Western Reserve, Oberlin, Ohio Wesleyan, Case, Wooster, Denison, Wittenberg.

	<i>State</i>	<i>%</i>	<i>Municipal</i>	<i>%</i>	<i>Seven Larger Endowed</i>	<i>%</i>	<i>Twenty Seven Smaller Endowed</i>	<i>%</i>
1900....	1,505	21	615	9	2,064	30	2,756	40%
1905....	2,521	27	698	7	3,390	36	2,834	30%
1910....	4,296	34	1,276	10	3,985	30	3,245	27%
1915....	7,218	39	2,761	15	4,646	25	3,695	20%
1920....	9,530	37	3,552	14	7,368	28	5,473	21%
1925....	15,142	39	5,481	14	9,333	24	8,878	23%
1930....	21,300	42	7,200	14	11,000	21	11,500	23%
1935....	25,700	42	8,500	14	12,500	20	13,300	42%

### State Colleges.

The enrollment indicated for the state colleges certainly is very great, and there are many problems of organization, faculty, buildings, housing students, as well as finance — to be met before it is possible to provide for it. Inasmuch as in 1919 with 7,927 students enrolled an estimate was made of 16,000 students in state colleges in 1930 and as 15,142 were actually enrolled in 1924, it would seem wise to face squarely the issue of an enrollment of 21,300 in 1930 and of 25,700 in 1935.

The total expenditures of the state colleges for 1924-25 was \$5,266,808, or about \$347 per student as against \$344 spent by private colleges. This per capita expenditure is too low for the proper conduct of the educational work the state is doing. However, accepting what has been spent, of the above total \$3,494,356 came from the state appropriations and the balance from fees, the Federal Government and other sources. Assuming that by 1934-35, \$2,000,000 can be secured from fees and other sources, \$6,920,000 would seem to be the least sum that could be required from the state for maintenance in 1934-35 and this would be far from adequate.

An average outlay of about \$1500 per student enrolled for buildings exclusive of dormitories is necessary to provide for instruction. This will call for \$16,000,000 more for buildings or \$4,000,000 for each biennium.

Putting these figures together, we get the following state budget for higher education in Ohio during the past ten years and the next ten years:



<i>Year</i>	<i>Personal Service and Maintenance</i>	<i>Land, Buildings and Additions to Permanent Equipment</i>	<i>Total State Appropriations for the Biennium</i>
15-16.....	\$1,819,158	\$369,450	\$4,545,784
16-17.....	1,803,301	481,875	.....
17-18.....	2,035,579	822,333	4,956,579
18-19.....	2,098,667	.....	.....
19-20.....	2,240,393	129,630	4,610,266
20-21.....	2,240,243	.....	.....
21-22.....	2,689,284	3,421,000	8,792,418
22-23.....	2,682,134	.....	.....
23-24.....	3,495,356	4,364,587	11,354,818
24-25.....	3,494,356	.....	.....
25-26.....	4,365,232	3,947,792	12,674,195
26-27.....	4,361,171	.....	.....
27-28.....	4,680,000	4,000,000	13,680,000
28-29.....	5,000,000	.....	.....
29-30.....	5,320,000	4,000,000	14,960,000
30-31.....	5,640,000	.....	.....
31-32.....	5,960,000	4,000,000	16,240,000
32-33.....	6,280,000	.....	.....
33-34.....	6,600,000	4,000,000	17,520,000
34-35.....	6,920,000	.....	.....

These figures are large, but the cause is great. They do, however, raise two questions:

(1) Should the state continue to admit all graduates of high schools to college without question in the face of the fact that the experience of the past ten years clearly shows that many of these students are not prepared to profit from college opportunities. Would it not be wiser to deny those students admission on certificate who graduate in the lowest fourth or third of their class? Accept the upper three-fourths or two-thirds of every class on certificate and the lowest fourth or third on examination only?

(2) Should higher tuition be charged? The funds now being spent are inadequate and an increase in fees with the same proportionate support by the state would give somewhat more generous funds for maintaining the state colleges. Adequate loan funds should be provided by the alumni for assisting all

worthy students needing aid and certainly the great majority of students attending state institutions today are amply able to pay \$75 or \$100 a year tuition.

Finally, we who are in charge must not allow the quality of our work to deteriorate. It would be far better to provide adequate instruction for 15,000 than inferior instruction for 25,000. The state must determine how many may be cared for in state colleges. The quality of work of the state colleges must be kept worthy of the state."

Such forecasts of growth of enrollment and costs will no doubt cause surprise to those unacquainted with the trends which seem clearly to be operating. Great weight must be given to the observations and study of one who has the standing and experience possessed by the author of the statement which has been extensively quoted.

It will be noted that Dr. Hughes definitely questions the wisdom of the unrestricted admission of all graduates of high schools who present themselves for entrance to these state institutions. He also raises the question of whether higher tuition should be charged suggesting that a \$75 or \$100 annual charge would not be excessive. Finally, he makes the very significant statement that, "The state must determine how many may be cared for in state colleges. The quality of work of the state colleges must be kept worthy of the state."

The enrollment growth of the state-supported institutions of higher learning is, of course, not unique to Ohio. State universities throughout the United States have been growing rapidly and in some cases faster than here. Privately supported colleges and universities have likewise grown by leaps and bounds, with the result that many of these institutions, including some of the largest, are finding it necessary to place a definite limit upon the number of students they will receive. One result of such limitations is to divert many students to state institutions where there is no limit upon enrollment. Moreover, the students so diverted may often be those with poorer scholastic qualifications since with the limitation on numbers in private institutions has come a strengthening of entrance requirements and the opportunity for selection.

While the Committee has not made a philosophical nor scien-

tific study of the causes for the increase of enrollment in higher educational institutions, some of the causes are sufficiently obvious to any one familiar with the conditions, such as:

1. The ambition of the American people to progress. Parents want their children to have the advantages which they have seen others enjoy and which they themselves perhaps have missed.
2. The widespread prosperity of the country, which has brought economic independence to an enormous population.
3. The proof given by college educated men in the World War that college and university education does prepare men for leadership.
4. The demand of industry and business for college graduates.
5. A local condition operating in Ohio namely the raising of the compulsory school age forcing many additional thousands of students into the high school which naturally increases the number who apply for college entrance.

The Committee believes that all of these influences will continue to operate and that the numbers demanding education will continue to increase much more rapidly than the total population. This leads to the consideration of what is the duty of the state with respect to supplying practically free, the highest type of university training to the sons and daughters of its citizens.

### **The Obligation of the State in Furnishing Higher Education.**

—Among the reasons ordinarily given for the state-support of higher institutions of learning are:

1. The democratic theory that all the people are entitled to an equal opportunity insofar as such opportunity can be assured by the state. This includes not only equality before the law, but an opportunity to the young to prepare themselves to meet social and economic competition.
2. That it is for the benefit of the state not only to educate its citizens so that they are able to read and write and understand elemental political questions, but to train leaders not merely for actual public service but for the purpose of stimulating and guiding the political and other activities of the people as a whole.
3. The special purpose of preparing men and women for teaching in the public schools.

4. The development of institutions which form the capstone of the whole public school system, and which may carry on research and experimental work in various basic fields of industry such as agriculture, commerce, mining, etc., for the benefit of the state as a whole.

The development and support of the various state universities and colleges in Ohio and other commonwealths furnishes splendid proof of the belief of the American people in higher education. These institutions are among the most admirable projects that have been built up and fostered under our form of representative government. No thoughtful person would think it wise to retard their healthy and necessary growth or to impoverish them in their operations. They must continue to grow in their capacity to serve an energetic and progressive people and to meet the needs of a dynamic and rapidly changing civilization. Your Committee has no desire to propose any measures which would curtail in any way the usefulness of Ohio's institutions of higher learning.

The time has come perhaps when it is necessary, or at least appropriate, to consider whether redefinition of the state's responsibility in furnishing higher education should be undertaken. This is a proper matter for legislative consideration since it is defined in effect by statute. The law provides (See G. C. Sec. 7658) that all graduates of first grade high schools are eligible without examination for admission to state supported schools. This obligates the state to provide facilities for all having this qualification who apply. A thoroughly democratic conception of the state's responsibility does not necessarily involve the premise that the state shall endeavor to furnish a higher education to all who apply regardless of their ability and inclination to profit by the expenditure of money and effort required.

A truly democratic concept might well be based upon the proposition that the state will furnish the opportunity for higher education to all those who give reasonable assurance of ability and inclination to utilize such an opportunity profitably. Corollaries of this concept are (1) that the opportunity afforded should not be impaired by the presence in state universities and colleges of many who cannot profit by the opportunity and (2) other equally meritorious functions of the state government should not



be penalized or retarded because of the cost involved in attempting to impart a higher education to all that apply to state institutions of learning. If this concept is to be accepted it is obvious that some workable and equitable method must be devised to test the ability and inclination of those who seek entrance to the state colleges and universities. Having in mind the tremendous increase in enrollment during the past decade in these institutions, the predicted trend for the next decade, the probable costs involved, the present fiscal condition of the state government and data upon the number of students dropped from these institutions annually for scholastic reasons your Committee has prepared a bill upon the subject of entrance requirements to the state supported colleges and universities.

The principal features of the bill may be described as follows:

A state board of college entrance is set up to be composed of the presidents of the state universities and colleges, the state director of education and three other members to be appointed by the governor and who shall have had a minimum of five years secondary school teaching or administrative experience. The term of office is fixed at five years.

The board shall provide for the preparation of entrance examinations to the state colleges and universities and finally approve all such examinations; fix the times, places and regulations for such examinations; provide for reading and grading the applicants' examination papers and issue certificates of admission to qualified applicants for entrance to the state universities and colleges.

No compensation is provided for the members of the board but only necessary expenses.

The board is given discretionary power to grant certificates of admission without examination: "...to applicants, who hold certificates of graduation from any high school of the first grade in this state or from any other school, wherever located, which the state board of college entrance shall find to be of educational merit equal to Ohio high schools of the first grade, if such applicant shall have ranked in average scholarship during the high school course or its equivalent among the upper two-thirds of the students in the classes in which such applicant has been enrolled and shall be recommended as qualified for admission to

college by the principal of the school from which such applicant holds a certificate of graduation”.

The board shall be attached to the state department of education for administrative purposes.

The bill as drawn authorizes but does not compel the board to require the undertaking of the examination by all candidates for admission. This recommendation is based on the opinion of the university authorities that most unqualified students are found among those who ranked in the lower third of their high school classes. In view of the different standards of grading existing in different schools, it may seem best to the legislature to require that the examinations be set for all candidates for admission.

**Elimination of the Unqualified Desirable.** — In the conferences held upon the subject matter of this bill there was agreement that students who are not qualified by ability and inclination to profit by the opportunity of a higher education are not desirable members of a student body. Such persons place additional burdens upon instructors, hinder the progress of the better qualified, increase instructional and administrative costs, tend to impair scholastic standards and incur unnecessary expense on the part of the state as well as their parents or guardians and perhaps most serious of all consume time and energy of their own which could be more profitably spent elsewhere both to themselves and society as a whole.

It is understood that from ten to twelve per cent of the members of first year classes at the College of Arts, Philosophy and Science of the Ohio State University are dropped during that year largely for scholastic reasons which percentage amounts to 300 or 400 students. A similar condition prevails it is believed at the other state schools. Upon this point the following extract is taken from the Annual Report of the Board of Trustees of the Ohio State University for the year 1921.

**Student Scholarship — College of Arts, Philosophy and Science.** — The following table gives a survey of delinquency in scholarship during the year:

	<i>Nov.</i> <i>1921</i>	<i>Dec.</i> <i>1921</i>	<i>Feb.</i> <i>1922</i>	<i>Apr.</i> <i>1922</i>	<i>June</i> <i>1922</i>
Put on probation.....	319	.....	212	106	137
Delinquent but not put on probation .....	968	.....	785	636	619
Out under rules.....	53	26	161	36	84
Total unsatisfactory.....	1,285	.....	1,169	773	840
Gross enrollment.....	2,878	.....	2,878	2,559	2,559
Per cent of gross enrollment unsatisfactory .....	44.2	.....	40.6	30.2	32.8
Per cent of gross enrollment dismissed .....	1.8	0.9	5.5	1.4	3.2

Gross enrollment for the year.....	2,972
Total dismissed during the year.....	360
Per cent of gross enrollment for the year dismissed.....	12.1

Considerable light may be thrown upon the reasons for the necessity of a considerable percentage of dismissals by the following tabulation prepared recently by state university authorities. This presents a classification of freshmen in various departments and schools of the state university according to the scholastic records of these students in their high school education. This shows that a total of 23% of the 2683 freshmen matriculated had been in the lower third of their high school classes scholastically.

#### CLASSIFICATION OF FRESHMEN BY HIGH SCHOOL GRADES

<i>College</i>	<i>Total</i>	<i>G(ood)</i> <i>Upper</i> <i>No.</i>	<i>%</i>	<i>A(verage)</i> <i>Middle</i> <i>No.</i>	<i>%</i>	<i>Lower</i> <i>P(oor)</i> <i>No.</i>	<i>%</i>
Agriculture .....	221	79	36	100	45	42	19
Ap. Optics.....	5	4	80	...	..	1	20
Arts .....	884	283	32	375	42	226	26
Arts-Educ. ....	17	12	71	4	23	1	6
Com.-Jour. ....	582	160	27	248	43	174	30
Education .....	394	188	48	152	39	54	14
Engineering .....	509	175	34	230	45	104	20
Pharmacy .....	54	10	19	26	48	18	33
Vet. Med.....	17	3	18	9	53	5	29
Total .....	2,683	914	34	1,144	43	625	23

Classification of freshmen according to high school records.

Ratings were established by the high school principals and the University Examiner.

Upper Division means 85-100%; middle 78-85%; lower 65 and 70 to 78%.

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In commenting upon the causes of poor scholarship the Trustees' report of 1921 says:

"That the scholarship of college students here and elsewhere is much below what it should be is universally admitted and has been widely discussed in educational circles. Boys and girls go to college much more as a matter of course and with much less personal effort than was formerly true; high school courses are much less directed toward meeting college requirements than they were; an increasing number endeavor to earn their way through college and attempt too much work; distractions of all kinds multiply each year some connected with college life and others incidental to life in a large city; a thousand interests press upon the attention of the student and so-called college activities constitute the major interest of not a few; college classes are crowded beyond the possibility of effective teaching; elementary courses are in the hands of young and inexperienced teachers; even experienced teachers become indifferent and uninspiring.

"One local factor that is of vital importance is found in the fact commented upon in this report last year that the Ohio Statutes require the College of Arts to admit all graduates from a first-rate high school. Colleges other than state institutions do not accept ill-prepared students. Moreover, most of the better colleges of the state now refuse to admit any student who did not graduate in the upper two-thirds of his class. The University should prepare a card of advice to be placed in each high school of the state describing a proper course for admission to colleges. It should also press for a change in the statutes that will authorize the University Examiner to reject all candidates for admission whose certificates are unsatisfactory either in character or scholarship."

Practically all college and university officials admit and complain that a very substantial percentage of their students come to college not for a real educational purpose but because it is popular and fashionable to do so, and, that when there, this type of



student is apt to do as little intellectual work as possible and spend most of his time enjoying himself. These observations apply quite as much to state institutions as to others.

The proposed bill, while not initiated or proposed by the University, meets in effect the recommendation voiced in this Trustees' Report by setting up an entrance examination requirement for those graduates of high schools who by their scholastic record should show some further evidence than their diploma that they are equipped to undertake a higher education. This bill also requires the recommendation of the high school principal for applicants who are not required to take an examination. It is believed that of all school officials concerned the high school principal is in the best position to pass upon the personal and scholastic qualifications of applicants.

**Fees.** — The question of the adequacy of the present fees and charges made by the state supported institutions has been raised. It is the general feeling of your Committee that great care should be exercised in determining what they shall be. Nor is it implied that there has been any lack of careful consideration given to this whole matter by university and college authorities. It is believed that restrictions upon attendance at state supported institutions should not be economic to any considerable extent but rather should be related to scholarship, ability and inclination. In other words, the state supported institutions of higher learning should be available to all qualified young men and women within the state who apply at as low direct costs to them as are consistent with the number to be served and the financial ability of the state as a whole to provide the necessary facilities.

A tabulation of the fees charged by a considerable number of publicly supported colleges and universities prepared by the Ohio State University shows that the charges of this institution are relatively moderate to Ohio students and relatively high for non-resident students. This the Committee feels is a good policy. Distinctly preferential treatment should be accorded to students resident in this state.

Apropos considerations for keeping the fees as moderate as possible (except for non-residents) the following information furnished by the Young Men's Christian Association at the Ohio State University is pertinent. While these statements are not

from an official university source there is no reason to doubt their accuracy.

"Forty per cent of the students work straight through the school year and take care of all expenses without any outside assistance.

Sixty per cent of the students work during their vacations or other odd times and take care of all or a portion of their educational expense.

Ninety per cent of the students work at some time during the school term and take care of all or a portion of their expense."

In the light of such evidence of self help it would seem undesirable to increase student fees unless the need for additional revenues from this source was inescapable.

**Summary.**—Enrollment in the state institutions of higher learning has been increasing at a phenomenal rate during the past decade. This is true also of most privately supported schools. The rate of increase will presumably not diminish unless checked in some manner by legislative action since the causes for an increasing enrollment will continue to operate so far as can be discerned.

The state law now provides that all graduates of first grade high schools are eligible for entrance without further qualifications to the state supported schools. Therefore any limitation upon enrollment is a matter of legislative policy.

It is believed that a truly democratic concept of the state's responsibility in furnishing higher education is carried out if the state furnishes the opportunity to all who give reasonable assurance of ability and inclination to utilize such opportunity profitably.

It is therefore recommended that a board of college entrance be established with authority to require entrance examinations for all applicants for admission to the under-graduate courses in the state universities and normal schools, and that no applicants for admission who have not at least ranked in the upper two-thirds of his school be admitted without such examination.

Such a recommendation is prompted by:

- (a) Data concerning scholastic failures in state supported institutions.
- (b) Undesirable effects of admitting any considerable number of unqualified students.
- (c) Predicted enrollment growth.
- (d) The state's financial condition.
- (e) Recommendations of university authorities for a limitation of enrollment.

The Committee does not favor increases in student fees because:

- (a) In its opinion economic restrictions on attendance should be as moderate as possible.
- (b) Information indicates that a large percentage of students now finds it necessary to help meet through gainful employment their necessary expenses.

## SECTION V

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### CHAPTER XIII COUNTY AND TOWNSHIP GOVERNMENT

### CHAPTER XIV SYSTEMATIZING FINANCIAL PROCEDURE OF LOCAL GOVERNMENTS AMENDMENTS TO THE INHERITANCE TAX LAW A TAX BURDEN STUDY





## CHAPTER XIII

### County and Township Government

#### Part 1 — County Government

"The County, the Dark Continent of American Politics," such is the title of one of the very few volumes dealing with county government in the United States. While the government of the city has been the subject of prolonged study and investigation within the last two decades and while the improvement of school administration has received widespread attention, the county has continued almost unnoticed and unaffected by movements for increased governmental efficiency. In organization it remains basically as it was three-quarters of a century ago, and in administrative methods it follows in large measure the time-worn ruts of past decades.

**Growing Importance of County Government.** — Yet the importance of the county in the political system has greatly increased within recent years. In Ohio, since 1910, the volume of county taxation has more than trebled, mounting from \$16,000,000 in 1910 to \$53,000,000 in 1925, and the amount of county indebtedness has risen from \$27,000,000 to \$138,000,000. Where a tax levy of \$3.41 per capita was sufficient for the support of county government in 1910, a levy of \$8.48 per capita was required in 1925. On a similar basis county indebtedness has grown from \$5.55 to \$22.00 per capita within the same period. Why have these increases taken place and what do they signify? It cannot be said that they reflect merely the change which occurred in price levels during the past decade, for they greatly exceed that change. The truth is that these increases are indicative not only of a radical decline in the purchasing power of the dollar but also of a striking expansion in the volume of county services.

**Expansion of County Activities.** — The following table shows approximately the degree to which the growth of county costs since 1910 may be attributed to the change in prices and the extent to which the expansion of county activities is presumably the principal factor:

	<i>Amount</i>	<i>Per Cent of Total Increase</i>
1910 county tax levy.....	\$16,259,000	...
1925 county tax levy.....	53,019,000	...
Total increase in county levy, 1925 over 1910....	36,760,000	100
Increase attributable to reduced purchasing power of dollar.....	19,032,000	52
Increase attributable primarily to expansion of services* .....	17,728,000	48

Allowing for the decline in the value of the dollar, there nevertheless has been an increase of 109 per cent in the cost of county government since 1910, as evidenced by tax levies. To assume that this increase is largely, or even materially, due to a laxer handling of public funds or to a lower standard of administrative efficiency does not appear reasonable; for the last two decades have witnessed a considerable improvement in the tone of local politics in the United States and no little effort to raise the level of public administration. It is justifiable, therefore, to infer that, eliminating the price factor, the growth of county costs is chiefly accounted for by the extension of governmental services.

The growth of county activities, and consequently of expenditures, has come about both through the introduction of new governmental services and through the enlargement of services previously existing. Though the functions of the county underwent little change in the latter part of the nineteenth century, important additions have been made within the last twenty years. Of these the construction and maintenance of hard surface roads has, of course, overshadowed all others. Between 1910 and 1925, county highway levies rose from \$4,800,000 to \$20,600,000 and now represent about 40 per cent of the total levy for county purposes. In addition, highway construction has been responsible for the greater part of the increase in county indebtedness.

Among other activities introduced within the last two decades in Ohio may be mentioned mothers' pensions, blind relief, the establishment of county hospitals and tuberculosis sanatoriums, and the development of a county health organization for rural territory—to mention some of the leading changes in the fields of health and welfare administration. In the realm of

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\* That is, the difference between the 1910 and 1925 levies when the 1925 levy is converted into dollars of 1910 purchasing power in accordance with the wholesale price index.

agricultural activity most counties have provided for the support of farm agents, and some have availed themselves of the authority to maintain experiment stations and to raise money for the eradication of bovine tuberculosis. In addition, county sewer and water improvements have been made possible, and the creation of county park districts has been authorized. The last decade and a half has also seen the transfer to the county of the appraisalment of property for purposes of taxation.

Thus, the county has supplanted the township as the unit for tax assessment and as the leading agency for rural road improvement, assumed new welfare functions, entered the fields of health administration and of agricultural activity, and in urban counties has begun to assume importance in the development of parks and sanitary improvements.

**Probability of Further Growth of County Services.** — Nor is it likely that the expansion of county activities is soon to cease. On the contrary, there are good reasons for believing that county government is now in a period of transition and that in the not distant future it will play a much more important role in the system of local government than at present. In the first place, it is practically inevitable that rural communities, like urban communities, will increase their demands for governmental services. In precisely what directions such pressure may be exerted it is difficult to predict. Present movements in various parts of the country would seem to point toward a further expansion of county health and welfare activities and toward a more elaborate system of improved county roads. The establishment of county police systems is by no means impossible in the more populous counties, and a greater development of sanitary systems under county control may be expected.

In the second place, there is strong evidence that the county is destined further to supplant the township in the service of rural communities. In more than half of the states townships are at present non-existent, and in other commonwealths there is a tendency to transfer governmental functions from the smaller to the larger unit. In Ohio this tendency has been particularly marked within the last fifteen years. Highway administration has largely passed into the hands of the county commissioners and the county surveyor, even where the township continues to



pay the cost. Township assessors have been abolished and their work vested in the county auditor. Health administration, in so far as it existed, has been transferred from the township to the general health district of the county. At the same time, it is noteworthy that such new activities as have been authorized have almost without exception been vested in the county rather than in the township. That the trend will continue in the same direction in the next decade seems altogether probable. With the rapid improvement of the means of transportation and communication the advantages of the larger governmental unit increase, and the conditions that formerly favored the development of the township pass away.

In so far as metropolitan centers are concerned, the future may also hold important developments for the county, though prediction in this case is far from simple. The problem of securing a uniform administration of certain services throughout the metropolitan area creates the possibility of a transference of power from municipalities to the county as the one all-embracing governmental unit within the region. Whether such a development will take place will, of course, depend in no small measure upon the degree of public confidence which county government can command. In any case a discussion of county government cannot ignore the growing need for a larger administrative unit to which some municipal functions may safely be transferred in metropolitan areas.

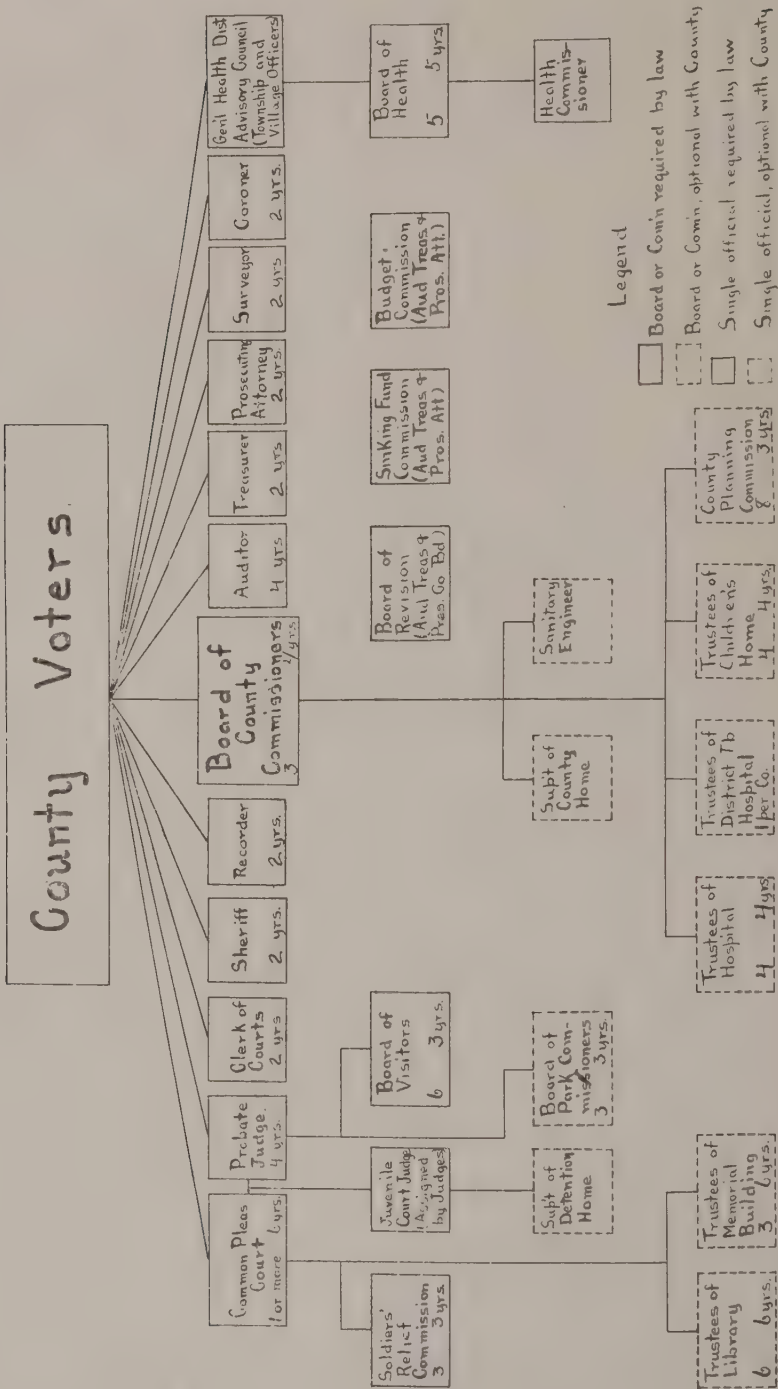
**Present Functions of the County.** — The present functions of the county may be briefly summarized as follows. In the first place, the county serves as the local district for judicial and election purposes. Strictly these are, of course, functions of the state in the performance of which the county is merely used as the administrative area. The cost, nevertheless, falls primarily upon the county, though county officials are not permitted to determine its amount. Secondly, officers of the county are responsible for the maintenance of order and the prosecution and custody of offenders. County officials are likewise charged with the administration of the general property tax and with the collection of the inheritance and cigarette taxes and of some lesser forms of revenue. The county also provides for the recording of deeds, mortgages and other legal instruments.

In the field of public works the county is the principal agency for the construction and maintenance of bridges and of improved roads other than state highways. Not only does the county surveyor have direct charge of the paving and repairing of county thoroughfares, but also of the improvement of township highways. In addition, he has general supervision over the maintenance of all township roads. The county likewise maintains the principal drainage ditches, and constructs and operates water and sewer systems outside of municipalities.

The welfare functions of the county include institutional care of orphans and indigent persons and outdoor relief of ex-soldiers and sailors and of the blind, together with the provision of mothers' pensions. In some cases counties also operate hospitals and tuberculosis sanatoriums, not to mention a variety of lesser activities some of which are required by law and others of which are optional. Finally, a survey of the county can scarcely omit the county park district and the general health district, which supplement the work of county government proper over the whole or a large part of the county area.

**Present Administrative Organization.**—In administrative organization county government presents a picture of extraordinary complexity. Beside the three members of the board of commissioners each county elects eight administrative officers, namely: auditor, treasurer, surveyor, prosecuting attorney, clerk of courts, recorder, sheriff and coroner. With the exception of the commissioners and the auditor, who serve for four years, the terms of these officials are two years. While the major part of the work of the county is carried on by this group of officials, there are also a variety of appointive officers and boards, as well as ex-officio commissions.

Nor is there any uniformity as to the method of appointment. The boards of trustees of county children's homes, of hospitals, and of tuberculosis hospitals are appointed by the county commissioners. The trustees of county memorial buildings and of libraries, on the other hand, are appointed by the common pleas court, as are also the soldiers' relief commissions. The probate judge appoints the board of visitors and the county park commission where park districts have been established. The sanitary engineer and the superintendent of the county home are appoint-



ees of the board of commissioners, while the superintendent of the detention home is chosen by the juvenile court judge. Thus, the selection of administrative officers is scattered widely and with little apparent logic among the electorate, the county commissioners and the courts.

**County Organization Defective.**—To say that county government is planless and antiquated is but to affirm what everyone familiar with its operation has long realized. The truth is that the county violates almost every principle of business and of governmental organization which experience has evolved. It is, indeed, the product of centuries of slow but largely hit-or-miss development. In some of its features it dates with comparatively little change from medieval England. The coroner's office, for example, which has been the butt of jokes for a generation, has its origins in the thirteenth century, and has remained throughout the centuries more because of inertia than because of any real necessity for its retention. The sheriff's office is likewise an inheritance from early English times. Other offices have their roots in seventeenth, eighteenth and early nineteenth century conditions. As is almost inevitable in view of its history, the product of this long process of piecemeal development is a needlessly clumsy and complicated governmental machine.

The present system of county government is subject to serious criticism both from the standpoint of administrative efficiency and of popular control. As a business organization the county lacks a responsible head. The board of county commissioners, which plays the leading role, is neither the chief executive nor in the fullest sense of the term the central policy determining agency of the county. As an executive it appoints certain administrative officers, but the bulk of the work of county government is handled by elective officials over whom the commissioners have only limited control. The powers and duties of these officials are largely determined by law, and the organization of their departments and the selection and removal of their subordinates is in their own hands. No single governmental body can control the personnel of the principal county offices, enforce co-operation among them, or be held accountable for their administration. Even where the commissioners possess the appointing power, its effectiveness is in some cases curtailed by the existence of long-term administrative boards.



In no other branch of government is administrative authority so decentralized. In this respect the county stands out in sharp contrast with the forms of organization that have proved most successful in American business and with the types of government which have been found most satisfactory in municipalities. Both in private business and in city government the necessity of a central executive head, possessing authority to select the principal administrative officers and having responsibility for their supervision, is now recognized. Yet in the case of the county such an agency is utterly lacking.

Such control as the county commissioners possess over administrative officers is largely financial in character. The commissioners make appropriations and approve claims against the county. Even here, however, their authority is not complete. Both the courts and the board of elections determine the extent of their own expenditures without interference by the commissioners. In a number of cases, judges or administrative bodies may authorize expenditures or certify budget estimates which are legally binding upon the commissioners, though in practice the latter are probably often modified. Within special tax limits the commissioners are required, for example, to levy a tax sufficient to meet the full budget estimates of the soldiers' relief commission and another to cover the estimates for mothers' pensions as certified by the juvenile court judge. In several cases the authorization of public improvements is vested in the courts or made subject to their review. In a few instances the number and salaries of county employees may likewise be fixed or altered by the courts. Until recently the commissioners were even without full authority in setting the total amounts to be allowed elective officers for the payment of subordinates, and within these allowances the number of such employees and their individual salaries are still determined by each official for himself.

Not only does extreme decentralization interfere with the administrative efficiency of the county, but it also inflicts an excessive burden upon the electorate. While the voter of Cleveland, Cincinnati or Dayton is only called upon to select councilmen, and the citizen of Toledo need vote only for a mayor and councilmen for the conduct of municipal affairs, he is expected to choose three commissioners and eight administrative officers for the

administration of the county government. Such a task is usually beyond the ability of even the best informed citizens. The long county ballot undoubtedly fosters blind voting and militates against popular control in any real sense of the term. If democracy means simply the right to vote for any and all officials, county government is, of course, democratic; but if it signifies effective popular control over public affairs, the present organization of the county with its multiplicity of elective offices is fundamentally undemocratic.

The present system of county government is also subject to criticism in that it fails adequately to recognize the differences in governmental needs which characterize the various sections of the state. Urban and rural, rich and poor, growing and declining counties are all fitted to the same pattern. Vinton County with a population of 12,000 and an assessed valuation of \$13,000,000 and Cuyahoga County with a population of over 1,000,000 and a valuation of \$3,000,000,000 are compelled to employ the same basic organization. Because some counties have need for a full-time recorder or clerk of courts, all counties are forced to elect such officers. Were it legally possible, many small counties would no doubt find it to their financial advantage to combine activities and reduce the number of officials, and many large ones would discover that their administration could be more efficiently conducted if organized along more modern lines.

**Alternative Plans of Governmental Organization.**—In the development of new types of county organization, it will probably be necessary for a time to rely heavily upon the experience of cities. While the reorganization of county government is only beginning to make headway, much has already been accomplished in the case of municipalities. In general three different types of organization have been developed by cities, which with some modifications might be applied in the realm of county government—the manager plan, the commission plan and the council-mayor plan.

The manager plan provides for the election of a legislative body of whatever size seems most suitable and the appointment by such body of a manager, who will appoint and remove the heads of administrative departments and exercise general supervision over administrative business. This type of organization

is in operation in Cleveland, Cincinnati, Dayton, Springfield and a number of smaller cities of the state as well as in some 350 municipalities elsewhere.

Under the commission plan both the legislative and the executive functions of government are vested in a single elective body of from three to seven members. Unlike the present boards of county commissioners, the members of such a commission individually serve as heads of administrative departments, and subordinate officials are appointed either by the commission as a whole or by the particular commissioner within whose department the positions are located. Though this form of organization is used in several hundred cities, it has found less favor in recent years than other plans of government. Friction has not been uncommon among the members of the commission and the need for a single administrative head has been particularly felt. Many cities formerly operating under the commission plan have, as a matter of fact, accepted the manager form of organization to overcome these difficulties.

The council-mayor type of government calls for the election of a legislative body and of a mayor as chief executive, who appoints, removes and supervises the heads of administrative departments. With many variations this is, of course, the commonest form of municipal organization.

Any of these plans could without difficulty be applied to the county and would result in a very decided simplification of its governmental structure. Either the manager or the council-mayor form would insure the presence of an administrative head with general oversight of county operations and real responsibility for the conduct of administrative affairs. The commission plan, though less satisfactory from this standpoint, would greatly reduce the number of elective officials and would bring department heads together within a single body. Any of the three plans would afford as ample popular representation in the determination of county policies as now exists, and the manager and the council-mayor plans would both permit a much more representative controlling body than the present boards of county commissioners. However, it is not the purpose of this report to deal with the relative merits of the various forms of local organization, but merely to indicate some of the alternatives to the present

arrangement which might be employed if change were made possible.

**Necessity of a Constitutional Amendment.** — Unfortunately the state constitution now stands in the way of a thoroughgoing reorganization of county government. Section 1 of Article X of the constitution has been interpreted by the courts to require the election of all "county officers." Any position which is adjudged to be a "county office" must therefore be filled by popular election. To cite an example, the provision of the original Smith Law with reference to the county budget commission was held unconstitutional, because it included in the budget commission an official who was not elected by the county as a whole. Furthermore, certain county offices are specifically mentioned in the constitution, and their existence is either assumed or definitely required. Among these are the county commissioners, sheriff, treasurer, recorder and clerk of courts, the election of the last named official being specifically provided for.

Under the circumstances, the legislature is seriously handicapped in attempting a revision of the system of county government. If any satisfactory reorganization is to be undertaken, the constitution must first be amended. Your Committee, consequently, has prepared and recommends the submission of a constitutional amendment with reference to county government.

**A Proposed Amendment as to County Government.** — This amendment provides for the repeal of Article X, dealing with counties generally, and of Article IV, Section 16, requiring the election of the clerk of courts. It also proposes a new Article X, defining the powers of the legislature with regard to county government and allowing counties some discretion in selecting their own form of organization. Briefly summarized, the amendment authorizes the legislature (1) to pass general laws as to county government and (2) to enact optional laws which may be adopted by any county by popular vote.

The proposed amendment reserves to the legislature the definition of the powers and duties of counties. In this respect it differs materially from the municipal home rule provision, which confers upon municipalities all powers of local self-government. Such a grant of authority has been deemed inadvisable for two reasons: first, because the operation of two agencies, the municipi-



pality and the county, having "all powers of local self-government" within the same territory would inevitably lead to conflict and confusion; and secondly, because the county functions in large measure as a local agent of the state in the administration of state policies and should as a result be subject to more immediate state control than is imposed upon municipalities.

Under the amendment the powers of all counties would be fixed by state law, and the machinery of county government might be established in either of two ways. All counties, not electing otherwise, would be organized in accordance with the general county laws. On the other hand, counties so desiring could adopt by popular vote a form of organization provided by an optional county law. In dealing with the structure of county government in this manner, the amendment can scarcely be said to be experimental. It merely carries over into counties methods of determining governmental organization which Ohio has applied in the case of cities and villages since 1912 and which are employed by many other states in dealing with municipalities.

In conclusion the situation may be summarized as follows: The work of county government is rapidly increasing, but the present machinery of county administration is both complicated and difficult of popular control. To secure a short ballot and a simple and more efficient type of organization, a constitutional amendment is necessary. If county government is to be organized in accordance with the needs of widely differing regions, if in a word the requirements of both Vinton and Cuyahoga Counties are to be met, complete uniformity of administrative structure cannot be imposed. This difficulty can be overcome by empowering the legislature to enact optional as well as general county government laws and by permitting counties to select their own form of organization from among the plans authorized by such optional laws. If needless offices can be eliminated and the machinery of county government be brought into line with the requirements of local administration, there is every reason to expect that substantial savings as well as improvements in service will result.

## PART TWO — TOWNSHIP GOVERNMENT

Ohio is one of seventeen states in which the township exists as a separate governmental unit\*. Historically, the township system in this state had its origin in the eighteenth century, when settlement had scarcely begun. Its roots are embedded in early rural conditions, with poor roads, slow communication and a consequent demand for small administrative units. Nevertheless, it has remained as a part of our governmental organization, though the conditions which produced it have largely passed away.

The township system covers the entire state with the exception of about a score of cities, among which are most of the larger cities and their suburbs. At the present time there are 1383 townships in all. The number of such subdivisions within a single county varies from 8 to 28, but in the majority of cases it ranges between 12 and 15. The area of the township is usually about 30 square miles, and the population outside of municipalities is ordinarily between 600 and 1400, the average being under 1000.

**Functions of the Township.** — The work of the township is largely confined to three fields — highways, poor relief and cemeteries. In practice road maintenance overshadows all else and frequently represents almost the sole item of expense other than the payment of elective officers. Under the threefold division of highway work among the state, the county and the township the bulk of the road mileage is under the jurisdiction of the township. But since these are the less important highways, township activity is limited chiefly to the care of dirt roads. The work of grading, dragging and gravelling is handled by an appointed highway superintendent or by the trustees themselves. In addition to maintenance, the township may, however, undertake the improv-

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\* The township exists in name in 22 states, but in five of these it is only a county district or precinct and not a separate political unit. The New England town must not be confused with the township, which is a quite different type of governmental agency. See Porter, *County and Township Government in the United States* p. 308.

ing and paving of roads. In this event the plans are prepared by the county surveyor and the work is executed under his direction. While an examination of township tax rates might create the impression that an extensive program of township road improvement has been carried out, such is not the case, for the greater part of the township road tax goes toward the financing of state and county highway construction.

Poor relief is the second function in order of importance. Here again the field is shared with the county. The township is responsible for the administration of outdoor relief, while the county provides institutional care and certain specialized forms of assistance. The admission of indigent persons to the county home is, nevertheless, in the hands of the township trustees. In point of expenditure poor relief is a significant though modest item in the cost of township government.

In addition, townships commonly maintain cemeteries and may authorize the construction of local ditches. Several other activities have also been authorized, but are as a matter of fact very rarely undertaken. Among these are the establishment of libraries and the creation of parks. More recently the purchase of fire equipment and the lighting of public roads have been provided for. This practically concludes the list of possible township activities.

**Township Organization.** — The administration of the township is chiefly, but not entirely, in the hands of a board of three trustees elected for a two year term and retiring as a body. They are the taxing and appropriating authority and have general control over finances. The trustees are likewise responsible for township highway activity and serve as the agents for the administration of poor relief. Such authority as the township possesses with reference to local ditches is also vested in them, and they have charge of the maintenance of cemeteries unless they have appointed a separate board of cemetery trustees for that purpose. The remaining powers of the township are assigned to the trustees for the most part, but the statutes ordinarily require the approval of the voters for any of the less usual undertakings.

Township records and accounts are kept by the clerk, who is elected for a two year term. He also performs the functions of a treasurer, but funds are required to be kept in a depository

chosen by the trustees. The township also elects one or more constables to preserve the peace and to serve as agents of the justices of the peace. In practice the constable is chiefly the handy man of the justice's court, the maintenance of the peace being left to the county sheriff. Such other positions as the township possesses are filled by appointment. The trustees may, but are not required to select a highway superintendent for the care of the roads. If a library is maintained, a library board must be appointed by the trustees. Where a township park has been established, the law now provides for the appointment of a board of park commissioners by the common pleas court. Each township, therefore, possesses at least five elective officers excluding the justice of the peace, who is a judicial rather than an administrative officer, and a varying number of appointive positions.

**Decline of Township.**—There can be no question as to the decline of the township in Ohio. The last fifteen years have witnessed a gradual paring away of its functions and a shifting of authority to the county. In 1913 the appraisalment of real property was transferred to the county and in 1925 the assessment of personal property was similarly centralized. The establishment of general health districts in 1919 displaced the township as an agency of health administration, and the revision of the ditch laws in the same year omitted the township as a drainage authority. In the latter case, however, the township has partially regained its position.

Of far greater importance has been the centralization of highway activity under the road laws of 1915. Though the township trustees retain the right to order the improvement of township roads, the plans are drawn and the work is directed by the county surveyor. In short, the township trustees have become a local improvement board with power to authorize but not to manage highway construction projects. In practice it may properly be said that the township has become primarily a road assessment district to assist in the financing of state and county highway improvements, for the greater part of the township taxes are now levied by the county commissioners for exactly this purpose. Only in the case of the maintenance of unimproved roads does the township retain its independence, and even there



the county surveyor has been given general supervision and all expenditures in excess of \$50 require his approval. It is thus apparent that Ohio has taken a long stride toward the elimination of the township as an agency of highway administration.

The decline of the township is by no means confined to Ohio. A similar process is at work in other states in which the township system exists. In fact, it is only in unincorporated suburban territory that the township shows a marked tendency to expand its functions. There the transition from rural to urban conditions has in some cases resulted in the township taking on many of the activities of a municipality. Nor should the fact be overlooked that the majority of states are operating without a township system at all. Among the younger states of the West this is the case without exception. It is likewise noteworthy that at least one of these states, Washington, has authorized the creation of townships but that local communities have not seen fit to avail themselves of such authority. In the South, where the county is the unit of local government in rural territory, unsuccessful attempts have also been made to establish the township. Since the Civil War the township system has been introduced in Maryland, Virginia and West Virginia, but only to be abandoned after brief trials\*. With the exception of a few Prairie States the township system has made little headway since 1850.

**Reasons for Decline.** — Why has the township declined? Fundamentally, the answer is to be found in the fact that it no longer meets the governmental requirements of rural life. In the first place, modern invention has removed the necessity for rural administrative units of such small proportions. The telephone, the automobile and the improved road have overcome distance to such a degree that the county of today is in reality a smaller and more widely governmental area than the township of half century ago.

A second factor in the decline of the township is the increasing complexity of governmental services and the consequent necessity of better trained officials. Whereas the ordinary farmer might build and maintain the old fashioned dirt road, the trained engineer is needed to direct the highway activities of today. To

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\* See Fairlie *Local Government in Counties, Towns and Villages*, pp. 48-50.

cite another example, with the limited knowledge of preventive medicine which prevailed two generations ago, rural health administration involved little more than the drainage of swamps and the occasional enforcement of quarantines, while today it is a science which calls for the trained sanitarian and the public health doctor. Changes such as these inevitably ring the knell of the unskilled, part-time local official of the type upon which the township must necessarily rely. Only by enlarging the administrative area to make possible a reasonable specialization in public work and by the employment of full-time officials can the requisite degree of training and skill be secured in the performance of public services. Ohio has already recognized this fact by the substitution of the general health district for the township in the field of health administration and by the partial centralization of highway activity in the county. Similar considerations underlay the transfer of tax assessment from the township assessor to the county auditor. That they will eventually bring about the complete centralization of highway maintenance and poor relief in the county seems altogether probable. Should these functions be transferred, little would remain to justify the retention of the township as a separate governmental unit.

While the centralization of functions in the county has arisen principally out of the desire for better service, it also involves an element of economy. Administration through the larger unit avoids needless duplication of equipment and personnel. To what extent Ohio has saved money by vesting the maintenance of paved roads in the county surveyor rather than in township highway superintendents as in a few states cannot be exactly determined, but the amount is no doubt considerable. That further economies in road machinery would be possible if all road maintenance were similarly centralized in the county appears certain. The purchase of separate township road outfits to be used for a few days or weeks and allowed to rust for several months each year can scarcely be termed good business.

Still another consideration leading to the decline of the township has been the necessity of wider resources for the financing of public undertakings. This has been a matter of particular importance in the construction of improvements such as modern highways. Here the greater wealth and superior credit

of the county have made it the better administrative agency. Furthermore, the county serves in part to equalize local differences in wealth and thus to make possible the improvement of services in communities whose poverty would otherwise block development.

**Conclusions.** — The Committee has reached the following conclusions with reference to the future of township government in Ohio:

1. The decline of the township is inevitable and will continue. The process of decay which has been particularly evident in the last decade and a half is due to a fundamental cause, namely, the fact that the township is no longer suited to the requirements of local government in rural areas. The conditions which were originally responsible for its creation have ceased to exist. Its ultimate elimination seems practically certain therefore.
2. The Committee recommends the immediate abolition of the township and the transfer of its remaining functions to the county. In practice this would mean chiefly the centralization of road maintenance in the county surveyor, and the substitution of a county officer for the township trustees in the administration of outdoor relief. Both of these steps have been urged by persons desirous of improving rural administration in these fields, and such a centralization of activities is now a fact in many states. Such occasional township enterprises as parks and libraries should be also transferred to the county.
3. If the township is to be retained for the immediate future, the handling of funds and the keeping of accounts should be transferred from the township clerk to the county treasurer and auditor respectively. Such a transfer would involve no great enlargement of the work of these officials. In fact, the addition of an extra deputy or clerk would very likely be sufficient in most counties, and the cost would probably be less than the present expenditure for township clerks. The net result would be a much better administration of township finances, greater protection to the taxpayer, and a simplification of state supervision of public accounts.

## CHAPTER XIV

### **Systematizing Financial Procedure of Local Governments Amendments to the Inheritance Tax Law A Tax Burden Study**

In this chapter several matters are treated which are distinct from each other but which are thus presented as a matter of convenience. The subjects relate to —

- (1) A bill systematizing financial procedure for local governments and fixing aggregate tax limits.
- (2) Proposed amendments to Ohio's inheritance law.
- (3) Description and status of a tax burden study undertaken by the Committee.

**Proposed Legislation relating to the Levying of Taxes and Systematizing Financial Procedure of Local Governments.** Your Committee has prepared a bill reincorporating into the law certain statutes relating to the levying of taxes, to the financial procedure governing subdivisions of the state and supplementing the existing financial procedure by providing a uniform system of funds for political subdivisions, and further developing a uniform budgetary practice.

In this bill an aggregate tax limitation of 15 mills on the assessed valuation of each subdivision is provided, subject to the exceptions included within the bill. The 10 mills limitation is done away with, it being practically meaningless under existing conditions and the so called "internal limitations" are to a large extent eliminated. The exceptions to this 15 mills limitation included within the bill are substantially those existing by reason of recent statutes providing for the exemption of tax levies for certain specific purpose. The conditions under which these exceptions to the 15 mills limitation may be made effective are recodified in the bill. Briefly these exceptions to the 15 mills limitation can be made effective in one of two ways.

1. It is provided by the re-enactment of an existing statute that any municipality can by its charter or an amendment thereto, provide for its own tax limitation either for all purposes of the municipality or simply for current operating expenses.



2. It is further provided in the bill, substantially by the re-enactment of an existing statute, that the taxing authorities of any subdivision, other than municipalities which have provided a local tax limitation in their charter, can by resolution, upon two-thirds vote of the tax levying body, declare the amount of taxes which may be raised within the 15 mills limitation to be insufficient, and to declare in the same resolution that it is necessary to levy a tax in excess of such limitation for any one of a number of purposes enumerated. The bill further provides for the procedure in submitting such tax levy to the vote of the people, for canvassing the results of the election and for certifying the levy authorized to the County Auditor.

In this bill the provisions for a uniform budget procedure for all subdivisions of the state as provided in the Vorys' budget law are re-enacted with some modifications and extensions. Certain provisions governing the expenditure of money by subdivisions of the state are likewise re-enacted with some modifications tending to reduce all expenditures to complete appropriation control and with other modifications tending to liberalize the expenditure of money pursuant to appropriations.

**New Legislation Supplementing Existing Provisions for Uniform Financial Procedure in Political Subdivisions.** In the proposed bill provision is made for a uniform system of funds for all political subdivisions to take the place of the rather indefinite fund arrangement now existing. It is proposed that there shall be established in each subdivision the following funds.

- a. General Administrative Fund.
- b. General Improvement Fund.
- c. A Judgment Fund.
- d. A Special Fund for each special levy and for revenue derived from other sources than taxation which the law provides shall be used for a particular purpose.
- e. A Special Bond Fund for each bond issue.
- f. Such other funds as may be prescribed by law.

It is intended by this proposed statute to definitely establish a general administrative fund to which all revenue whether derived from general taxation for current expenses or from any

other source shall be credited, unless such revenue is dedicated by law to a particular purpose.

With a view to providing definite financial arrangement for the payment of final judgments rendered against political subdivisions, a judgment fund is provided to be set up with the requirement that the chief fiscal officer of each subdivision annually certify to the taxing authorities the amount of taxes necessary to provide for the payment of final judgments and such estimate shall be placed in the annual budget by said taxing authority in the full amount.

Where special tax levies are levied for particular purposes the proposed statute will re-enact existing requirements that the proceeds of these special levies be set aside in special funds to safeguard the use of the money for the purpose for which it was raised. And likewise it will still be necessary for the fiscal authorities in each political subdivision to maintain a special fund for each bond issue and for each utility publicly owned and operated.

**Ohio's Inheritance Law.** Your Committee believes that for the most part Ohio's inheritance tax law is a satisfactory example of legislation in this field. There seems to be no occasion for any extensive revamping of this statute. Three suggestions are however presented.

- (1) Provisions for reciprocity in taxation of successions to intangible property.

Serious injustice can be done under the inheritance laws of various states through the multiple taxation of intangible property. For example — intangible property not located in the state of the decedent's residence may have its succession taxed in the state of residence as well as by the state where the property is located. This obviously is a double burden and may be a very heavy one.

It is recommended that Ohio's present inheritance tax law be supplemented by a provision which will prevent such multiple taxation in cases where reciprocal legislation is operative in other states, i.e., Ohio will not tax the succession of intangible property located in Ohio but belonging to a non-resident decedent if the state of decedent's residence taxes that succession and conversely if such state does not tax the succession to intangible property therein located belonging to a decedent resident in Ohio.

The need for such reciprocal treatment of intangible property in jurisdictions other than that of the decedent's residence is recognized generally by students of inheritance tax legislation. Various states have such reciprocal provisions and it is time Ohio adopted this policy. There is no justification for continuing present practice.

- (2) The taxation of an annuity or life estate terminated by death of annuitant or life tenant.

In such cases it is recommended that when the tax upon such an interest has not been previously fixed, its value shall be computed upon the basis of the annuity or income actually paid or payable to the annuitant or life tenant during the period for which such person was entitled to the annuity or life interest.

- (3) Taxation of estates dependent upon contingencies, conditions, etc.

The law now provides (See Sec. 5343 General Code), that where the rights, interests or estates under any succession are dependent upon contingencies or conditions the tax shall be levied at the highest rate that would be possible upon the happening of any of such contingencies or conditions. Provision is made for refunders where in fact a contingency or condition takes place which necessitates levying the tax finally at a lower rate or the making of a complete exemption.

It is recommended that the present sections of the law be supplemented with a provision of the following character. Direct that the probate court, upon motion of the executor or trustee, shall compute the tax at the lowest rate which would be possible under any of the contingencies or conditions which might apply whereupon the executor or trustee may elect to pay such tax and deposit with the county treasurer cash or bonds equal in value to the difference between the tax computed at the lowest rate and at the highest rate possible. Such bonds or cash shall be held by the treasurer until the actual happening of a particular contingency or condition, but the income therefrom shall be paid to the executor or trustee. When the contingencies or conditions to which the succession is subject have happened the court shall determine the tax finally and refunder of all or part of cash or bonds deposited shall be made as determined by the actual amount of the tax as finally determined.

In cases where the executor or trustee is a corporation doing a trust business no deposit of cash or bonds shall be required, but the liability for the payment of any additional tax shall be secured by the capital stock of the trust company and the fund deposited with the state treasurer as provided by law in the same manner and to the same extent as for the faithful discharge of the duties by such trust company in respect to any trust.

These suggested changes and additions to the inheritance tax law have been incorporated in a bill which has been prepared for introduction at the forthcoming session.

**A Tax Burden Study.** The question of what tax burden various industries actually bear excites much controversy and speculation. Some contend that industry and business — particularly some sorts — are taxed comparatively lightly, while others, often the industries themselves, assert that the tax burden is most grievous which in some cases amounts to confiscation or forces removal to some other jurisdiction. The tax burden on industry, its distribution and amount, its effect upon production, its effect upon saving and the creation of new industry are among the most vital problems confronting legislative bodies. With the constantly upward trend in governmental costs these matters become more acute and some consideration of them is inescapable.

Your Committee desiring dependable, first hand information upon the actual tax burden borne by Ohio business and industry, including agriculture, initiated a tax burden study. Through the questionnaire method large numbers of business enterprises of various sorts have been invited to give the Committee in a confidential manner complete figures as to federal, state and local taxes paid during the last five years; also figures of net income or net loss, net worth, dividends paid, property owned inside and outside the state and other pertinent information. From these data the Committee is preparing tabulations by classes of industry or business of the comparative tax burden as measured by the ratio of taxes paid to net income, to net worth, to dividends paid and to the value of property owned.

These ratios constitute common measuring sticks applying to various and diverse classes of industry and business, by which a comparison of the tax burden upon each may be made. Different



industries and businesses are taxed in different ways so that comparisons of tax burdens can perhaps best be made by a method such as this.

From this study it was hoped that a generally true and unbiased picture could be had of the tax burden and how it bears upon different classes of industry and business. The Committee is fully aware that any changes in the tax laws should preferably be based upon an accurate appraisal of existing conditions rather than upon so-called "general knowledge". Therefore this study was undertaken. It is believed that it is the first time so comprehensive a study of this sort has been undertaken in Ohio.

This study is well advanced, but in the judgment of the Committee the returns from certain classes of industries were insufficient in number to constitute a fair share of the total number involved. Much difficulty, in some instances, has been encountered in securing information despite the fact that only composite results would in any event be published. The plan of the study affords each class of industry and business an opportunity to state its own case with reference to its tax burden. There is, generally speaking, criticism by each class of business that its tax burden is too high, or inequitable, or increasing too rapidly. The Committee was desirous of securing first hand information upon each industry's tax burden so that if a general revamping or readjustment of the various business taxes were to be undertaken it could be done in as intelligent and scientific a manner as possible.

The returns which have been received have been tabulated and so far as they go reveal illuminating information and comparisons. The Committee was diligent in its efforts but because of the difficulties encountered was unable to complete the study in the time allotted. It is sincerely hoped that a way will be found by the incoming General Assembly for the completion of this valuable study. In all many hundreds of returns have been made by banks, other financial institutions, manufacturing concerns, and utility companies as well as by farmers. A larger and more representative number of returns should be secured however, before any specific conclusions are definitely formulated. But with a large part of the work already compiled the study should be pressed to completion.

# **PROPOSED LEGISLATIVE PROGRAM**

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## PROPOSED LEGISLATIVE PROGRAM

Following is a list of legislative measures which the Joint Legislative Committee on Economy and Taxation believes should be enacted. The foregoing report has presented the case for these proposals but it seems wise to enumerate them in one place for ready reference. Bills have been prepared, except as noted, for introduction.

- I. Proposals designed to promote economy in government.
  - a. A constitutional amendment which will make possible the reorganization of county government.
  - b. The elimination of small school districts.
  - c. An optional plan for establishment of a unified county school district.
  - d. Proposal to abolish township government. No bill has as yet been prepared upon this subject.
  - e. A limited entrance examination requirement to state supported colleges and universities and establishment of board of college entrance.
  - f. New debt limits for local governments.
  - g. A revamped plan for granting of state aid to weak school districts.
  - h. Establishment of uniform budget procedure for local governments.
- II. Proposals designed to promote equality and simplification of taxes.
  - a. Repeal of uniform rule of the constitution.
  - b. Amendments to inheritance tax law to reduce multiple taxation of intangibles and more reasonable treatment of successions dependent upon contingencies and conditions.
  - c. Revised tax limitation bill abolishing meaningless 10 mills limit, establishing aggregate maximum of 15 mills, and codifying of existing tax statutes.
  - d. Codification of bond laws.



III. Proposals designed to secure additional revenue for the state government if such is required to balance the budget of the next biennium.

- a. An amended corporation franchise tax law with an increased rate.
- b. A mortgage recording tax and a deed and conveyance stamp tax. Bills have not been prepared as yet for such taxes.
- c. An increase in excise taxes of certain classes of public utilities. No bill has been prepared.
- d. A billboard tax. No bill has been prepared.

N. B. These measures are recommended if *additional revenue* is required.

It is earnestly believed that the foregoing measures present a legislative program worthy of the most careful consideration of the General Assembly. The proposed bills are the product of careful study and research and the distinterested judgment of this Committee. It is recommended that they be enacted.

## APPENDIX

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## GRAND DUPLICATE STATE OF OHIO, 1910 TO 1925, INCLUSIVE

	Population of Ohio.	Pct. of In-crease in Popu-lation.	Assessed Valuation of Personal Property.	Pct. of In-crease.	Assessed Valuation of Real Estate.	Pct. of In-crease.	Total Assessed Valuation.	Pct. of In-crease.	Per Capita.		
									Personal Property.	Real Estate.	Total Assessed Valuation.
1910	4,767,121	.....	827,370,943	.....	\$1,656,944,681	.....	\$2,484,315,574	.....	\$173 56	\$347 68	\$521 14
1911	4,866,348	2.08	1,927,863,876	133.01	4,273,439,712	157.91	6,201,303,588	149.61	336 16	878 16	1,274 82
1912	4,965,576	4.16	2,145,393,637	159.30	4,335,665,521	161.66	6,481,059,158	160.87	432 05	873 14	1,305 20
1913	5,064,803	6.24	2,300,115,670	178.00	4,418,953,299	166.69	6,719,068,969	170.45	454 14	872 48	1,326 62
1914	5,164,080	8.33	2,655,314,103	220.93	4,570,962,546	175.86	7,226,276,644	190.87	514 19	855 15	1,399 35
1915	5,263,258	10.11	2,641,159,387	219.22	4,725,344,168	185.18	7,366,503,555	196.52	501 81	897 80	1,399 61
1916	5,362,485	12.49	2,847,507,939	244.16	4,850,122,293	192.71	7,697,630,232	209.84	531 01	904 45	1,435 46
1917	5,461,712	14.57	3,265,554,559	294.69	5,277,178,601	218.48	8,542,734,160	243.86	597 90	966 21	1,564 11
1918	5,560,939	16.65	3,643,290,255	340.34	5,424,872,785	227.40	9,068,163,040	265.01	635 16	975 53	1,630 69
1919	5,660,167	18.73	3,933,089,455	375.37	5,669,064,209	242.13	9,602,153,664	286.51	694 87	1,093 35	1,845 20
1920	5,759,394	20.81	4,330,222,885	423.37	6,297,008,757	280.03	10,627,231,642	327.77	751 85	1,090 07	1,833 99
1921	5,858,621	22.90	4,358,323,898	426.76	6,386,334,425	285.42	10,744,638,323	332.59	743 92	1,088 72	1,833 99
1922	5,957,849	24.98	3,920,207,010	373.81	6,486,415,212	291.46	10,446,622,222	318.89	657 99	1,088 72	1,746 71
1923	6,057,076	27.06	4,089,573,615	395.53	6,318,995,004	311.54	10,918,888,619	339.51	676 87	1,125 79	1,802 66
1924	6,156,393	29.14	4,186,763,720	406.03	8,063,626,005	336.65	12,270,389,725	393.10	680 08	1,309 82	1,989 89
1925	6,255,530	31.22	4,156,504,040	402.88	8,523,272,460	414.40	12,679,776,500	410.39	694 45	1,362 82	2,026 97

Reference: Population figures obtained from Ohio 14th Federal Census, page 5.  
Other figures obtained from Tax Commission Report, year 1925. Page 147, Table No. 6.



TABLE 2  
ABSTRACT CLASSIFICATION PERSONAL PROPERTY AWARD—1913 TO 1924 INCLUSIVE

Class	1913		1914		1915		1916	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Domestic Animals.....	\$160,277,845	6.82	\$184,161,957	6.16	\$177,865,459	6.67	\$181,092,250	6.35
Motor and Other Vehicles.....	25,804,992	1.10	44,942,274	1.50	56,048,203	2.10	67,271,063	2.36
Household Goods and Furnishings.....	1,415,118	.06	51,859,678	1.73	52,331,256	1.96	61,339,560	2.19
Farm Machinery.....	.....	.....	19,444,602	.65	20,152,063	.75	19,762,221	.69
Farm Products.....	.....	.....	16,753,696	.56	12,370,146	.46	17,394,118	.61
Motor Boats and Other Vessels.....	.....	.....	4,231,454	.14	8,723,309	.32	11,412,647	.40
Office Furniture.....	.....	.....	15,242,218	.51	15,987,162	.60	10,760,302	.38
Tools and Machinery.....	.....	.....	27,719,671	.92	12,738,399	.47	19,026,796	.67
Pianos and Musical Instruments.....	20,851,331	.88	26,242,237	.87	27,106,540	1.01	25,788,923	.90
Monies, Credits etc.....	112,695,496	4.79	149,999,367	5.02	143,900,559	5.40	180,597,580	6.34
Average Value Property Appertaining to Merchandise.....	179,671,349	7.65	179,077,456	5.99	176,366,633	6.62	167,565,464	5.88
Value required to be listed as Pawnbroker.....	1,560,121	.07	1,333,946	.04	1,467,331	.05	1,104,273	.03
Raw Materials and Manufactured Articles.....	191,476,713	8.18	294,386,609	9.85	304,184,780	11.42	347,772,502	12.21
Value of all Annuities.....	33,951,195	1.44	447,319,706	14.97	92,228,995	3.46	134,342,384	4.71
Average Value Property into Non-Taxable Securities.....	1,427,699	.06	2,113,402	.07	2,532,258	.09	2,917,013	.10
Dogs.....	106,366	.....	124,721	.....	104,663	.....	109,584	.....
Other Personal Property.....	203,942,351	8.68	44,096,914	1.47	29,994,108	1.12	26,762,251	.94
Value of Credits.....	154,890,223	6.59	219,933,786	7.36	218,828,891	9.34	205,244,529	7.20
Sub-Total.....	1,088,069,999	46.34	1,739,013,694	57.87	1,382,845,787	51.93	1,480,963,460	51.98
Banks.....	184,232,970	7.84	156,937,041	5.25	163,356,142	6.13	181,346,700	6.37
Sub-Total.....	1,272,302,969	54.18	1,895,950,735	63.12	1,546,201,929	58.06	1,661,610,160	58.35
Public Utilities.....	1,075,725,150	45.82	1,101,622,162	36.88	1,116,913,214	41.94	1,185,897,779	41.65
Less Statutory Exemptions.....	.....	.....	.....	.....	.....	.....	.....	.....
Grand Total.....	\$2,348,028,119	100.00	\$2,987,572,897	100.00	\$2,668,115,143	100.00	\$2,847,507,939	100.00

TABLE 2 — Continued

Class	1917		1918		1919		1920	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Domestic Animals.....	\$197,116,901	5.90	217,691,826	5.85	225,393,846	5.62	231,400,354	5.25
Motor and Other Vehicles.....	89,821,464	2.69	119,177,789	3.20	133,287,093	3.32	183,429,568	4.16
Household Goods and Furnishings.....	130,990,520	3.92	115,012,369	3.09	123,652,938	3.08	144,727,007	3.98
Farm Machinery.....	44,978,403	1.34	38,825,369	1.04	45,812,415	1.14	54,450,403	1.23
Farm Products.....	.....	.....	25,666,383	.69	22,987,301	.57	30,461,653	.69
Motor Boats and Other Vessels.....	13,264,138	.30	13,830,381	.37	13,276,589	.34	13,267,440	.30
Office Furniture.....	16,507,198	.49	18,382,318	.49	20,443,127	.51	26,644,127	.60
Tools and Machinery.....	130,326,695	3.90	160,731,359	4.32	184,707,957	4.61	218,486,294	4.95
Pianos and Musical Instruments.....	.....	.....	28,100,080	.75	32,649,895	.81	37,563,904	.85
Monies, Credits, etc.....	.....	.....	.....	.....	.....	.....	.....	.....
Average Value Property Appertaining to Merchandise.....	226,831,868	6.79	264,811,228	7.12	274,207,444	6.84	321,063,909	7.28
Value required to be listed as Pawnbroker.....	207,878,351	6.22	242,991,172	6.53	285,537,941	7.12	339,037,242	7.69
Raw Materials and Manufactured Articles.....	3,369,013	.10	445,724,769	11.99	592,664,464	12.54	541,992	.01
Value of all Annuities.....	336,699,904	10.50	445,724,769	11.99	592,664,464	12.54	561,046,360	12.73
Average Value Property into Non-Taxable Securities.....	138,021,099	4.13	181,439,945	4.88	196,129,960	4.89	188,317,880	4.27
Dogs.....	7,834,632	.23	18,631,675	.50	15,626,801	.39	11,480,672	.26
.....	165,244	.....	175,218	.....	159,146	.....	197,956	.....
Other Personal Property.....	1,263,523,504	37.84	1,313,897,798	35.36	1,374,409,606	34.30	1,412,475,193	32.06
Value of Credits.....	325,960,173	9.76	314,465,417	8.46	348,632,282	8.70	411,839,558	9.34
Sub-Total.....	3,147,289,407	94.27	3,320,165,347	94.74	3,800,179,053	94.85	4,186,734,414	95.04
Banks.....	191,235,026	5.73	195,114,183	5.26	206,150,480	5.15	218,443,980	4.96
Sub-Total.....	3,338,524,433	.....	3,715,279,480	.....	4,006,329,533	.....	4,405,178,394	.....
Public Utilities.....	.....	.....	.....	.....	.....	.....	.....	.....
Less Statutory Exemptions.....	72,969,874	.....	72,289,225	.....	73,087,503	.....	74,955,509	.....
Grand Total.....	\$3,265,554,559	100.00	\$3,643,293,255	100.00	\$3,933,242,030	100.00	\$4,330,222,885	100.00

TABLE 2—Concluded

Class	1921		1922		1923		1924	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Domestic Animals.....	\$173,151,371	3.90	\$154,446,384	3.86	\$148,075,225	3.54	\$130,002,204	3.04
Motor and Other Vehicles.....	194,025,444	4.37	162,283,215	4.05	178,871,814	4.27	229,310,343	5.37
Household Goods and Furnishings.....	146,229,004	3.29	135,677,510	3.39	141,313,006	3.38	146,886,591	3.44
Farm Machinery.....	49,309,082	1.11	43,403,512	1.08	41,545,762	.99	40,550,363	.95
Farm Products.....	19,984,814	.45	13,336,245	.33	11,800,193	.28	11,740,865	.27
Motor Boats and Other Vessels.....	16,602,061	.37	14,890,172	.37	14,760,445	.35	14,490,863	.34
Office Furniture.....	30,439,871	.68	28,178,300	.70	32,161,732	.76	33,785,898	.84
Tools and Machinery.....	287,917,983	5.36	205,696,132	5.14	217,970,738	5.21	226,967,623	5.31
Pianos and Musical Instruments.....	37,294,787	.84	33,986,914	.85	33,513,038	.80	33,669,798	.79
Monies, Credits, etc.....	307,092,654	6.92	256,209,176	6.41	275,174,936	6.58	269,039,951	6.30
Average Value Property Appertaining to Merchandise.....	356,672,797	8.03	284,755,065	7.12	301,579,649	7.21	308,372,124	7.22
Value required to be listed as Pawnbroker.....	704,105	.01	548,180	.01	833,437	.02	392,435	.....
Raw Materials and Manufactured Articles.....	563,243,745	12.69	443,316,992	11.16	488,214,225	11.67	499,303,719	11.62
Value of all Annuities.....	177,793,510	4.00	148,510,617	3.71	145,175,536	3.53	182,332,232	4.27
Average Value Property into Non-Taxable Securities.....	9,766,435	.22	9,957,611	.25	12,395,708	.29	11,950,253	.28
Dogs.....	218,792	.....	222,337	.....	229,571	.....	257,983	.....
Other Personal Property.....	1,471,890,400	33.17	1,479,401,730	37.00	1,518,605,493	36.32	1,515,025,888	35.46
Value of Credits.....	416,048,848	8.37	358,266,143	8.96	332,575,847	9.15	366,080,737	8.57
Sub-Total.....	4,208,385,703	94.86	3,775,886,325	94.45	3,944,796,965	94.37	4,019,359,930	94.08
Banks.....	228,223,255	5.14	222,030,032	5.55	235,549,270	5.63	253,118,650	5.92
Sub-Total.....	4,436,608,958	.....	3,997,916,367	.....	4,180,346,235	.....	4,272,478,580	.....
Public Utilities.....	.....	.....	.....	.....	.....	.....	.....	.....
Less Statutory Exemptions.....	.....	.....	77,709,347	.....	80,472,620	.....	85,714,860	.....
Grand Total.....	\$4,358,323,898	100.00	\$3,920,207,010	100.00	\$4,099,873,615	100.00	\$4,186,763,730	100.00

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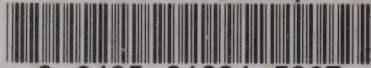








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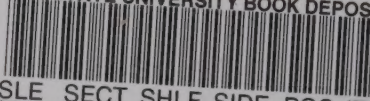
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REPORT OF THE JOINT LEGISLATIVE COMMITTEE

THE OHIO STATE UNIVERSITY BOOK DEPOSITORY



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